

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Prepared by:

B. Ellen Sewell, Finance Officer
Finance Department

Table of Contents

	Page
Introductory Section	
Letter of Transmittal	1 - 7
List of Principal Officials	8
Organizational Chart	9
GFOA Certificate of Achievement	10
Financial Section	
Independent Auditor's Report	11 - 12
Management's Discussion and Analysis	13 - 21
Basic Financial Statements	
Statement of Net Assets	23
Statement of Activities	24 - 25
Balance Sheet – Governmental Funds	26
Reconciliation of the Governmental Funds Balance Sheet to Net Assets of Governmental Activities in the Statement of Net Assets	27
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	28
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities of Governmental Funds	29
General Fund and Fire/EMS District Annually Budgeted Major Funds - Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP)	30 - 31
Statement of Net Assets – Proprietary Funds	32
Statement of Revenue, Expenses and Changes in Fund Net Assets – Proprietary Funds	33
Statement of Cash Flows – Proprietary Funds	34 - 35
Statement of Fiduciary Net Assets	36
Statement of Changes in Fiduciary Net Assets	37
Notes to Basic Financial Statements	39 - 59
Required Supplemental Financial Data	
Law Enforcement Officers' Special Separation Allowance	
Schedule of Funding Progress	61
Schedule of Employer Contributions	62
Notes to the Required Schedules	62
Other Supplemental Financial Data	
Major Governmental Funds	
General Fund:	
Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual (Non-GAAP)	63 - 67
Fire/EMS District Fund:	
Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual (Non-GAAP)	69 - 70

Table of Contents

	Page
Other Supplemental Financial Data (Continued)	
Non-major Governmental Funds:	
Combining Balance Sheet	72 - 73
Combining Statement of Revenue, Expenditures and Changes in Fund Balances	74 - 75
Newport River Water Access Capital Project Fund - Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual	76
MATS Capital Project Fund - Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual	77
Baseball Park Capital Project Fund - Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual	78
2005 Street Improvements Capital Project Fund - Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual	79
Recreation Center Capital Project Fund - Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual	80
School Property Acquisition/Improvement Capital Project Fund - Schedule of Revenue, Expenditures and Changes in Fund Balance, Budget and Actual	81
Enterprise Funds:	
Water and Sewer Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	83 - 85
Solid Waste Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	86
Water and Sewer Capital Reserve Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	87
Water and Sewer Capital Project Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	88
Water and Sewer Rebataable Capital Reserve Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	89
Water Treatment Capital Project Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	90
Water Reuse Capital Project Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	91
Auto Meter Read System Capital Project Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	92
Water/Sewer Extensions Capital Project Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	93
WWTP Improvement Capital Project Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	94
Lift Station Improvements Grant Project Fund - Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)	95

Table of Contents

	Page
Other Supplemental Financial Data (Continued)	
Other Financial Information:	
Schedule of Ad Valorem Taxes Receivable	97
Analysis of Current Tax Levy	98
Statistical Section (Unaudited)	
Net Assets By Component - Last Six Fiscal Years	100 - 101
Changes in Net Assets - Last Six Fiscal Years	102 - 105
Fund Balances, Governmental Funds - Last Ten Fiscal Years	106 - 107
Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years	108 - 109
Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	110
Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years	111
Principal Property Tax Owners - Current and Nine Years Ago	112
Property Tax Levies and Collections - Last Ten Fiscal Years	113
Ratio of Outstanding Debt by Type - Last Ten Fiscal Years	114 - 115
Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years	116
Direct and Overlapping Governmental Activities Debt	117
Legal Debt Margin Information - Last Ten Years	118 - 119
Demographic and Economic Statistics - Last Ten Fiscal Years	120
Principal Employers - Current Year	121
Full-Time Equivalent Town Government Employees By Functions/Programs - Last Ten Fiscal Years	122
Operating Indicators by Function/Program - Last Ten Fiscal Years	124 - 125
Capital Asset Statistics By Function/Program - Last Ten Fiscal Years	126 - 127
Compliance Section	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	129 - 130
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	131 - 132
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major State Program and on Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act	133 - 134
Schedule of Findings and Questioned Costs	135 - 136
Corrective Action Plan	137
Summary Schedule of Prior Audit Findings	138
Schedule of Expenditures of Federal and State Awards	139 - 140
Notes to the Schedule of Expenditures of Federal and State Awards	141

INTRODUCTORY SECTION

- Letter of Transmittal
 - List of Principal Officials
 - Organizational Chart
 - GFOA Certificate of Achievement for
Excellence in Financial Reporting
-

MOREHEAD CITY NORTH CAROLINA

GERALD A. JONES, JR., Mayor

GEORGE W. BALLOU, Mayor Pro-Tem

Council

PAUL W. CORDOVA

DAVID HORTON

JOHN F. NELSON

DEMUS L. THOMPSON

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Morehead City, North Carolina 28557-4234
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R. RANDY MARTIN
City Manager

November 13, 2009

To The Honorable Mayor and Members of the Town Council
Morehead City, North Carolina

We are pleased to present the Comprehensive Annual Financial Report of the Town of Morehead City for the fiscal year ending June 30, 2009. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report complies with these requirements.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the Town. Responsibility for both the reliability of the data and the completeness and fairness of the presentations, including all disclosures, rests with the Town. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe this financial report is complete and reliable in all material respects.

McGladrey & Pullen, LLP, a firm of independent licensed certified public accountants have audited the Town's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2009 are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion on the Town's financial statements for the fiscal year ended June 30, 2009. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to the independent audit of the financial statements, the Town is required to have a "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and certain state agencies. Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, findings and recommendations, and auditors' reports on the internal control structure and compliance, are included in the Compliance Section of this report.

This Comprehensive Annual Financial Report is presented in four sections which include the introductory, financial, statistical, and compliance sections. The introductory section includes this transmittal letter, the government's organizational chart, and a list of principal officials. The financial section includes the auditors' report on the financial statements and schedules, Management's Discussion and Analysis, the basic financial statements and related notes, the combining and individual fund financial statements and schedules, and additional financial data. The statistical section contains selected financial and demographic information. The compliance section presents reports and schedules required by the federal and State grantor agencies. MD&A included in the financial section fulfills a GAAP requirement that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Description of the Town of Morehead City

Morehead City is located on the coast of North Carolina approximately 150 miles southeast of Raleigh. With a population of approximately 8,800 it is the largest incorporated town in Carteret County. Founded in 1858, this picturesque community is located on the Intercoastal Waterway and is separated from the Atlantic Ocean by a sound and a protective barrier island.

The Town combines the best of the relaxed, friendly atmosphere of a small Southern town with many amenities generally found only in larger communities that make life here both pleasurable and convenient. Residential, shopping, medical, and industrial areas surround the downtown business district, which is home to many restaurants and a renovated, working waterfront. Located in the city limits is the deep water Port of Morehead City, one of two state ports in North Carolina. Also, located in the Town is the county's 134-bed hospital, a branch of the state community college system, and the Crystal Coast Civic Center. The Town is forty-five minutes away from the closest commercial airport and fifteen minutes from the county airport, which services private planes.

The Town of Morehead City operates under the Council-Manager form of government. The Town Council is comprised of the mayor and five council members who are responsible for the legislative affairs of the Town. They are elected at large and serve for two-year and four-year terms, respectively. The Mayor and Council make appointments to various boards and appoint the City Manager, City Attorney, City Clerk, and Tax Collector. As chief executive officer, the City Manager is responsible for enforcement of all laws and ordinances, the efficient delivery of all Town services, and the preparation and management of the budget.

The Town provides a full range of governmental services, including police and Fire/EMS protection, street construction and maintenance, planning and zoning and building inspections, cemetery, parks and recreation, and a library. In addition to general governmental activities, the Town provides water and sanitary sewer and a comprehensive solid waste program.

The estimated 2009 population for the Town of 8,800 represents a 1.0% increase from the 2008 estimated population of 8,700. The Town encompasses approximately seven square miles and employs 157 full-time equivalent staff. Although the rate of growth has slowed compared to the last several years, all indications are that economic growth in the area will continue.

Economic Conditions and Outlook

The information in the financial statements may be best understood when considered in the context of the environment in which the Town operates. Morehead City is located in a rural coastal county. The major industries are tourism and fishing. The main attractions are the area's beaches and water related activities. The county also enjoys a number of historical sites that serve as destinations for individuals and groups.

The county's economy, while seasonal, is stabilized by being in close proximity to two Marine Corp bases and air stations at Cherry Point and Camp Lejeune, which provide substantial employment for the county. Each of these installations has experienced growth in force strength and this growth is scheduled to continue. Both Carteret County and Morehead City play host to a growing marine science community. The NC State University Marine Sciences and Technology Center, UNC-Chapel Hill Institute of Marine Sciences, and the NC Division of Marine Fisheries are located in Morehead City. The Duke University Marine Laboratory and the NOAA National Marine Fisheries Service are located just outside of the city limits of the Town. The lack of dependence on manufacturing and high tech jobs has lessened the impact of the negative economic situations that have faced other communities for the past several years. The community had a 7.4% unemployment rate in June 2009 compared to 11.2% statewide and 9.7% nationally (not seasonally adjusted).

All indications are that the Town and the county will continue to grow although at a slower pace than that experienced in recent years. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the Town limits and the extraterritorial jurisdiction in 2008 was \$27.0 million. This growth expands our tax base and property taxes, one of our largest revenue sources. Also, expansion of a natural gas pipeline in the county, which began in 2004, is seen as an economic opportunity that has the potential to attract new industry to the area and expand and diversify the job market and further expand the tax base.

The Town closely monitors its resources and has emphasized program efficiencies and other cost containment efforts, allowing strong financial positions to be maintained. We believe that the improving economic environment in this area along with the diligent management of the Town's costs and services will provide ongoing financial stability and fiscal capacity.

The Budget Process

The annual budget serves as the foundation of the Town's financial planning and control. All Town departments submit requests for appropriation to the City Manager to begin the budget process each year. These requests are used to create a final proposed budget, which the City Manager presents to the Town Council for review no later than June 1. The Town Council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the Town's fiscal year. The appropriated budget is prepared by fund, function, (e.g. public safety), and department (e.g. Police). The City Manager may make transfers of appropriations, excluding contingency funds, within a function without Town Council approval. Use of contingency funds and transfers between functions within a fund or between funds require approval of the Town Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an annual budget has been adopted. For the general and the fire/EMS funds, this comparison is presented as part of the basic financial statements for the governmental funds. The budget-to-actual comparisons for all other governmental funds, and the enterprise funds, are presented in the individual fund sections of this report. This includes project-length budget-to-actual comparisons for funds for which project-length budgets have been adopted.

Major Initiatives

One of the goals of the current administration has been to develop programs and pursue projects that upgrade facilities and enhance the quality of life for citizens and visitors through the cooperative efforts of governmental units, the business community, nonprofit organizations, and individual citizens. 2008-2009 major initiatives undertaken to meet this goal include final negotiations for the donation of library facilities from a private foundation, continued planning and design of a combined Town police station/County E911 communications center, and improvement of recreation facilities. The Fire/EMS operation was a major participant along with the local community college in provision of a fire fighter training academy. The

Water/Sewer Fund began installation of an automated meter reading system and substantially completed construction of a new wastewater treatment plant and began planning for a water treatment and water reuse systems as well as major lift station improvements. More detail on each of these follows.

The Town completed negotiations with a private foundation to acquire library facilities for the Town through a 99-year lease, with extensions. The Town took over library operations several years ago when financial constraints prohibited the foundation from continuing to fund the library and closure was eminent. Assumption by the Town of the operation preserved and expanded this function for the citizens. The Town is working toward acceptance of the library into the multi-county system that serves the region with continued Town participation through facility maintenance.

The Town in conjunction with Carteret County continued the design of the renovation of a building the Town purchased two years prior that will serve as a combined police station/County E911 dispatch and emergency operations center. This project will provide cost efficiencies to both Town and County residents. Upon completion, the County will have the operating capacity to provide countywide dispatch service to all public safety agencies and eliminate personnel and equipment redundancies that currently exist. The building will include a "hardened" section that will better assure dispatch and other services during weather and other emergency.

Recreation opportunities were enhanced at several locations. Exterior improvements at the Recreation Center were completed during the year. The improvements included reworking of the football/ softball field, new lighting, irrigation, and fencing as well as an exercise loop. This work completed another phase of renovation at the Recreation Center, which also included interior improvements finished in the previous year. These improvements were partially grant funded. Work to bring to fruition a baseball park continued as land clearing was completed and construction began. This park, which has been partially funded through grants and donations, will expand the Town's recreation offerings to citizens. The Town previously constructed a similar type soccer park. Improvements to water access were made as the Town completed water and sewer services at the Newport River Water Access and pursued permitting of an extension to a well used fishing pier. The county has participated in funding for this ongoing project.

Fire/EMS services in the area were enhanced by Morehead City's continued participation in the Crystal Coast Fire Academy. The Fire/EMS Department initiated the development of the Crystal Coast Fire Academy in conjunction with Carteret Community College during the previous fiscal year. The academy provides intensive fire-fighter training in a twenty- week period including classroom and intern service experience. The Town provided a building used as a dormitory and training facility. The program benefits the public by providing fire-fighter training locally. The Town benefits by having trained personnel available for hire and/or to serve as volunteers. There have been three graduating classes since inception of the school.

Construction was substantially completed on a new tertiary wastewater treatment plant capable of treating 2.5 million gallons per day. Construction began in March, 2007 and the plant became operational in January, 2009. It was designed to exceed current state standards for discharge and will also provide reuse/irrigation water as well as Class A sludge that can be used in gardens and lawns as a soil supplement. Ultraviolet disinfection will be used to treat the water without chemicals when the plant is totally finished. Cost of the project is almost \$16 million. Funding sources included a combination of federal and state low interest loan funds as well as local funds. Future system improvements in the planning phase during the year included water treatment, water reuse, and lift station improvements. The Town was awarded American Reinvestment and Redevelopment Funds (ARRA) to pay for water treatment and lift station improvements. The Town was the beneficiary of water and sewer lines constructed to expand service to new development in areas voluntarily annexed in recent years. These extensions were paid for by developers.

For the Future

The Town Council adopted the fiscal year 2009-2010 budget in June 2009. The budget maintained the tax rate \$.22 per \$100 of valuation. Most ongoing General Fund revenue sources were projected to decrease or at best remain flat compared to the prior year. Rates for solid waste service remained flat. Water and sewer rates were budgeted to increase 10 percent at midyear.

The Town Council expressed their concern about unsettled economic events by adopting a very conservative budget for the 2009-2010 year. As noted above, projections for most revenue sources were reduced from the prior year. To balance spending, the salaries were frozen at current levels and unfilled nonessential positions were left vacant. By taking these steps furloughs and reductions in force were avoided and other employee benefits were continued unchanged.

Capital improvement funding in the 2009-2010 budget focused on completion of ongoing projects with few exceptions. Projects funded in the General Fund include time sensitive grant funded items including construction of a bathhouse/laundry building to service docks previously built to serve transient boaters. Grant funded sidewalk and street improvements were also included in the budget. The Fire/EMS budget included funds for property acquisition to relocate an aging Fire/EMS station. Relocation of this facility, a goal of the Town for the last several years, is imperative to provision of service to areas of the Town and Fire/EMS districts that have experienced significant growth in recent years. An installment purchase obligation was budgeted to provide funding for this item. Capital spending in the Water and Sewer Fund included only equipment that will contribute to operational efficiency and funding for projects currently in progress or in the planning phase.

Cash Management

The Town utilizes a cash management policy that requires full investment of cash. Funds needed for immediate use are on deposit in an interest-bearing checking account. Amounts in excess of current needs may be invested in certificates of deposit or the North Carolina Capital Management Trust.

The Town's policy is to invest in instruments that minimize risk while assuring liquidity and maintaining a competitive yield. Accordingly, time deposits were made only with financial institutions that maintained principal offices in North Carolina. These amounts were either covered by federal deposit insurance or collateralized by securities held by an agent of the North Carolina State Treasurer.

Overall economic conditions have resulted in a decline in investment yields and earnings. In addition, the Town invested some of its available cash in capital assets during the year. The combination of these two factors resulted in a decrease in earnings on unrestricted investments of \$313,235. The Town earned \$268,745 on all unrestricted investments for the year ended June 30, 2009. The General Fund interest represents an amount approximately equal to one third of one cent on the property tax rate.

Risk Management

The Town has a comprehensive plan for risk management. It includes a safety program with documented procedures and continual training for employees and is comparable to programs in larger entities. The result of this aspect of risk management has been a significant reduction in employee injuries, significant cost savings, and an improved work environment.

The Town utilized two (2) risk sharing pools administered by the North Carolina League of Municipalities (NCLM) to provide coverage for most risk exposures. These pools were formed through a cooperative effort of the NCLM and the state's cities and towns in the 1980's in response to an insurance market that made coverage for governmental entities difficult and expensive to purchase. The coverage offered through the NCLM pools are tailored to meet the specific needs and risks that governmental units face. The Town also purchases insurance for some needs that are outside the scope of coverage by the NCLM pools or that other carriers may better serve.

The Town utilized the North Carolina Interlocal Risk Management Agency (NCIRMA) to provide coverage against risk of loss for workers' compensation claims. Liability, property, and employee bonds and crime coverage were provided through the Interlocal Risk Financing Fund of North Carolina (IRFFNC). The NCLM administers claims for both of these programs.

The Town purchased group medical coverage for Town employees, elected officials, retirees, and their covered dependents from Blue Cross Blue Shield of North Carolina. Other group coverage including dental, vision, life, and disability were provided by various companies via an arrangement with the NCLM. The Town paid the cost for full-time employees and elected officials. The Town may also pay for coverage for retirees if age and service criteria are met. Dependent coverage is available at the expense of the covered member.

Pension and Other Postemployment Benefits

The Town provides pension benefits through participation in the Local Government Employees Retirement System. Full-time general and law enforcement employees are required to join upon employment. This is a tax sheltered deferred compensation plan administered by the State of North Carolina. The Town fully funds the retirement program on an actuarial basis.

The Town funds the state mandated Law Enforcement Officers' Special Separation Allowance Plan on pay as you go basis. Actual benefits paid during the 2008-2009 fiscal year totaled \$10,952. Law enforcement officers also received a state mandated 5% Town contribution to a 401(k) deferred compensation plan and may make voluntary contributions. Participation in the 401(k) deferred compensation plan was available to general employees. General employee participation at a nominal level was required to receive the 5% contribution from the Town. The 401(k) deferred compensation plan was administered by Prudential Investment Management Services, LLC.

The Town of Morehead City also provided postretirement health care benefits to certain retirees and their dependents. At the end of the fiscal year there were ten retired employees receiving these benefits, which are currently financed on a pay as you go basis.

Additional information on the Town's pension arrangements and postemployment benefits can be found in the notes to the financial statements.

Independent Audit

The North Carolina General Statutes requires the Town to provide for an annual audit of the accounts and financial transactions of the Town by a firm of independent certified public accountants. The Town Council designated McGladrey & Pullen, LLP, Certified Public Accountants, to meet these requirements and their report follows and is an integral part of this report.

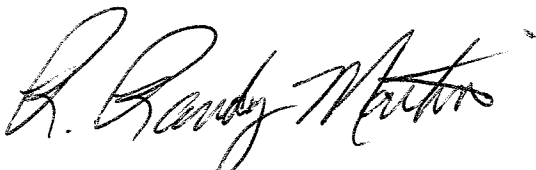
Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Town of Morehead City for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the nineteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

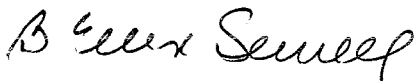
A Certificate of Achievement is valid for a one-year period only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

The preparation of this report is the result of the desire of the Mayor and Town Council to develop the highest standards of financial reporting. We recognize their foresight in encouraging these standards. We also recognize the efficient and dedicated services of our Finance Department staff and our independent auditors for their support in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "R. Randy Martin". The signature is fluid and cursive, with a large initial "R" and a stylized "M".

R. Randy Martin, City Manager

A handwritten signature in black ink, appearing to read "B. Ellen Sewell". The signature is cursive, with a large initial "B" and a stylized "S".

B. Ellen Sewell, Finance Officer

Town of Morehead City, North Carolina

**List of Principal Officials
June 30, 2009**

Town Council

Honorable G. A. "Jerry" Jones Jr.
Mayor

Paul W. Cordova

John F. Nelson

Demus L. Thompson

George W. Ballou
Mayor Pro Tem

David A. Horton

Administration

R. Randy Martin
City Manager

Jeanne M. Giblin
City Clerk

B. Ellen Sewell
Finance Officer

David E. McCabe
Public Works Director

Wesley T. Lail
Chief, Fire & EMS Department

E. Wrenn Johnson
Chief, Police Department

Stephen C. Hamilton
Public Utilities Director

Louise B. Hughes
Parks and Recreation

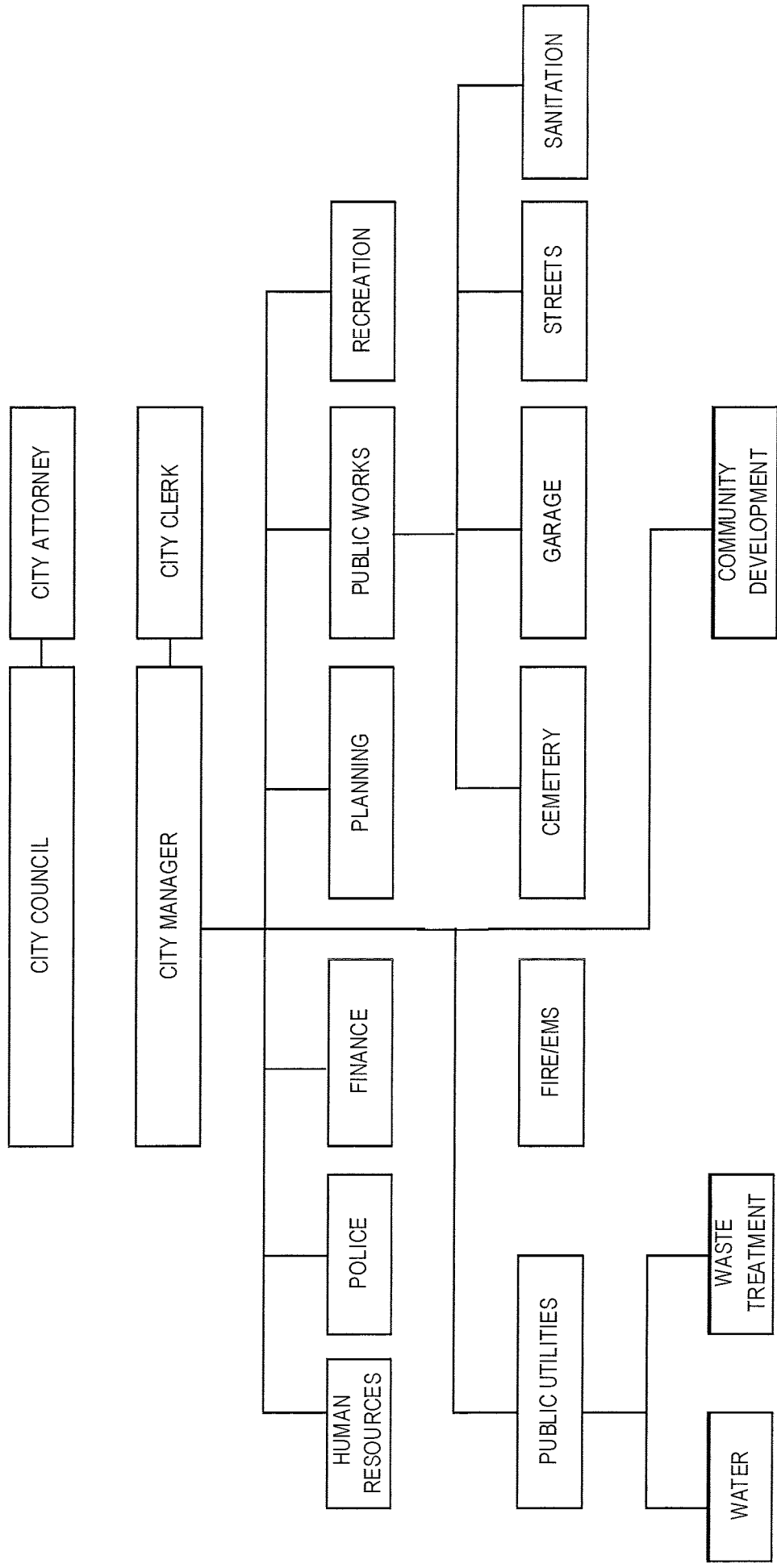
Linda V. Stabb
Planning and Inspection Director

Shirl F. Meadows
Tax Collector

Sandra W. Bell
Library Director

Susan Nixon
Human Resources Director

TOWN OF MOREHEAD CITY



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Morehead City
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. R.", is positioned above the title "President".

President

A handwritten signature in black ink, reading "Jeffrey R. Emerson", is positioned above the title "Executive Director".

Executive Director

FINANCIAL SECTION

- Independent Auditor's Report
 - Management's Discussion and Analysis
 - Basic Financial Statements
 - Notes to the Basic Financial Statements
 - Required Supplemental Financial Data
 - Combining and Individual Fund Statements and Schedules
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McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City
Morehead City, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Morehead City, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise Town of Morehead City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Morehead City, North Carolina as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general and fire/EMS district funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 13 through 21 and 61 through 62 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Morehead City's basic financial statements. The combining and individual fund financial statements and schedules and statistical section, as well as the Schedule of Expenditures of Federal and State Awards (in the compliance section) as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements of Town of Morehead City, North Carolina. The combining and individual fund financial statements and schedules and the Schedule of Expenditures of Federal and State Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 13, 2009

Town of Morehead City, North Carolina

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009

This section of the Town of Morehead City's (Town) annual financial report presents a narrative overview and analysis of the Town's financial performance for the fiscal year ended June 30, 2009. Please read it in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

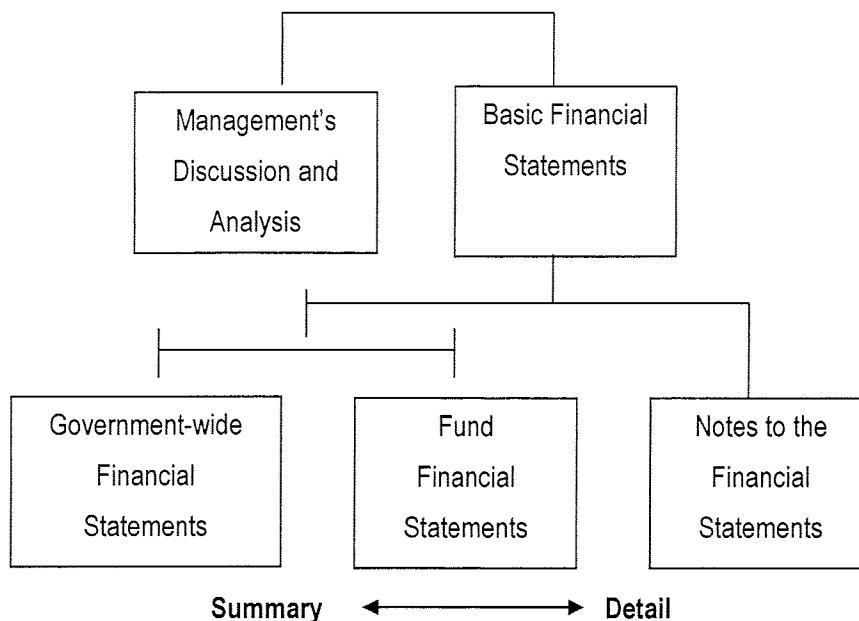
Financial Highlights

- The overall financial position of the Town improved in 2009 as evidenced by an increase in total net assets of \$6.1 million. This increase was from both governmental (\$4.8 million) and business-type (\$1.3 million) activities.
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$55.8 million (net assets). Of this amount, \$12.0 million (unrestricted net assets) can be used to meet the Town's ongoing obligations to its citizens and creditors.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$5.8 million, a decrease of \$.7 million in comparison with the prior year. Approximately 67.3 percent of this total amount, or \$3.9 million, is available for spending at the government's discretion (unreserved and undesignated fund balance).
- At the end of the current fiscal year, unreserved/undesignated fund balance for the General Fund was \$2.9 million, or 40.0 percent of total General Fund expenditures.
- The Town's total debt increased by \$3.6 million during the current fiscal year. The Town borrowed \$4.8 million for system improvements in the Water and Sewer Fund. Principal payments from governmental and business-type activities totaled \$1.2 million during the year.

Overview of the Financial Statements

This annual report consists primarily of three parts: management's discussion and analysis (this section), the basic financial statements, and a section that presents combining and individual fund statements as well as detailed budgetary comparison schedules. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. The following diagram shows how the required components of this annual report are arranged and relate to one another.

Required Components of Annual Financial Report



The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Town's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.

- The *governmental funds statements* tell how general government services, like public safety, were financed in the short term as well as what remains for future spending. A budgetary comparison statement has been provided for the General and Fire/EMS Funds to demonstrate budgetary compliance.
- *Proprietary funds statements* offer short- and long-term financial information about the activities the Town operates like businesses, such as the water and sewer system.
- The *Fiduciary fund statement* reflects the financial relationship with the Special Separation Allowance Trust Fund, which provides benefits exclusively for law enforcement Town employees.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data, and are followed by the required supplemental financial data on the Law Enforcement Officers' Special Separation Allowance. In addition to these required elements, a section is included with combining statements that provide details about nonmajor governmental funds, which are totaled and presented in a single column in the basic financial statements. This section also includes detailed budgetary information required by North Carolina General Statutes.

The remainder of this overview section explains the structure and contents of the government-wide and fund financial statements.

Government-wide Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies.

The *statement of net assets* includes all of the government's assets and liabilities except fiduciary funds. The *statement of activities* accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the Town's net assets (the difference between assets and liabilities) and how they have changed. Over time, increases or decreases in the Town's net assets are one indicator of

whether the Town's financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Town's property tax base and the condition of the Town's roads, must be considered to assess the overall health of the Town.

The government-wide financial statements are divided into two categories:

- Governmental activities - Most of the Town's basic services are included here, such as public safety, community planning and development, streets and culture and recreation. Property taxes, other taxes, and grants and contributions finance most of these activities.
- Business-type activities - The Town charges fees to customers to cover the costs of certain services provided. The Town's water and sewer system and solid waste system are included here.

The government-wide financial statements are on pages 23 – 25 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant funds, not the Town as a whole. Funds are accounting groups that the Town uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State Statutes. Other funds are established to control and manage resources designated for specific purposes.

The Town has three kinds of funds:

- Governmental funds - Most of the Town's basic services are included in governmental funds, which focus on (1) the flow in and out of cash and other financial assets that can be readily converted to cash and (2) the balances left at year-end that are available for spending in the next year. These funds are reported using the modified accrual accounting basis and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The Town adopts an annual budget for the General Fund, as required by State Statutes. A budgetary comparison statement is presented for the General Fund using the Town's budgetary basis of accounting. This statement reflects the following: (a) the original budget, (b) the final budget as amended, (c) actual resources, and (d) the variance between the final budget and actual resources. Because the Town's budgetary basis of accounting does not differ from the modified accrual basis used in the fund's statements, reconciliation is not necessary at the end of the statement.

- Proprietary funds – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Town has one type of proprietary fund. Enterprise funds are the same as the business-type activities (shown in the Government-wide Statements), but provide more detail and additional information, such as cash flows.
- Fiduciary fund - The Town is the trustee, or fiduciary, for the Law Enforcement Officers' Special Separation Allowance Trust Fund. It is responsible for ensuring that the assets reported in this fund are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. This fund is excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

The fund financial statements are on pages 26 – 37 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 39 of this report.

Financial Analysis of the Town as a Whole

Net Assets: For the Town, assets exceeded liabilities by \$55.8 million at the close of the most recent fiscal year. A summary of the Town's net assets at June 30, 2009 and 2008 is presented below:

Town of Morehead City's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 7,161,161	\$ 7,974,577	\$ 9,727,764	\$ 9,340,975	\$ 16,888,925	\$ 17,315,552
Capital assets	21,647,039	16,440,284	43,867,573	38,502,067	65,514,612	54,942,351
Total assets	28,808,200	24,414,861	53,595,337	47,843,042	82,403,537	72,257,903
Long-term liabilities outstanding	2,251,317	2,763,988	20,582,621	16,452,725	22,833,938	19,216,713
Other liabilities	1,148,388	1,007,708	2,645,527	2,329,177	3,793,915	3,336,885
Total liabilities	3,399,705	3,771,696	23,228,148	18,781,902	26,627,853	22,553,598
Net assets:						
Invested in capital assets, net of related debt	20,038,930	14,487,313	23,703,651	22,276,242	43,742,581	36,763,555
Restricted	49,870	44,853	-	-	49,870	44,853
Unrestricted	5,319,695	6,110,999	6,663,538	6,784,898	11,983,233	12,895,897
Total net assets	\$ 25,408,495	\$ 20,643,165	\$ 30,367,189	\$ 29,061,140	\$ 55,775,684	\$ 49,704,305

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The Town's net assets increased by \$6.1 million for the fiscal year ended June 30, 2009. However, the largest portion (78.4%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A minor portion of the Town's net assets (.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$12.0 million (21.5%) is unrestricted.

Net assets of the governmental activities increased \$4.8 million, or 23.1 percent, to \$25.4 million. However, \$20.1 million of these net assets either are restricted as to the purposes they can be used for or are invested in capital assets (e.g. land, buildings, machinery, and equipment buildings, roads, etc.). The remaining balance of \$5.3 million is unrestricted. The unrestricted net assets are available primarily to support operations and to provide for payment of long-term debt.

The net assets of the business-type activities increased by \$1.3 million, or 4.5 percent, to \$30.4 million. These net assets will be used to finance the operations and expansion of the water, sewer, and solid waste operations.

Changes in Net Assets: The following table presents the Town's changes in net assets for the fiscal years ended June 30, 2009 and 2008:

Town of Morehead City's Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenue:						
Program revenue:						
Charges for services	\$ 1,024,406	\$ 913,169	\$ 5,059,746	\$ 4,945,108	\$ 6,084,152	\$ 5,858,277
Operating grants and contributions	631,282	663,617	-	-	631,282	663,617
Capital grants and contributions	3,404,253	797,500	1,294,674	1,388,956	4,698,927	2,186,456
General revenue:						
Property taxes	5,769,140	5,514,458	-	-	5,769,140	5,514,458
Other taxes	1,807,788	1,985,403	-	-	1,807,788	1,985,403
Grants and contributions not restricted to specific programs	1,100,858	998,888	-	-	1,100,858	998,888
Other	184,854	1,549,315	160,539	324,294	345,393	1,873,609
Total revenue	13,922,581	12,422,350	6,514,959	6,658,358	20,437,540	19,080,708
Expenses:						
General government	1,435,315	1,500,379	-	-	1,435,315	1,500,379
Public safety	5,797,619	5,685,970	-	-	5,797,619	5,685,970
Highways and streets	922,125	913,660	-	-	922,125	913,660
Culture and recreation	791,320	935,483	-	-	791,320	935,483
Library	138,631	-	-	-	138,631	-
Interest on long-term debt	72,241	92,389	-	-	72,241	92,389
Water and sewer	-	-	4,405,690	4,317,521	4,405,690	4,317,521
Solid waste	-	-	803,220	798,825	803,220	798,825
Total expenses	9,157,251	9,127,881	5,208,910	5,116,346	14,366,161	14,244,227
Increase in net assets	4,765,330	3,294,469	1,306,049	1,542,012	6,071,379	4,836,481
Net assets, July 1	20,643,165	17,348,696	29,061,140	27,519,128	49,704,305	44,867,824
Net assets, June 30	\$ 25,408,495	\$ 20,643,165	\$ 30,367,189	\$ 29,061,140	\$ 55,775,684	\$ 49,704,305

Total government-wide revenue of \$20.4 million was primarily derived from charges for services (29.8%), property taxes (28.2%) and capital grants and contributions (23.0%). The total expenses of all programs were \$14.4 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 40.4% and water and sewer for 30.7%.

Governmental Activities

Governmental activities increased the Town's net assets by \$4.8 million, thereby accounting for 78.5% of the total growth in the net assets of the Town of Morehead City. Key elements of this increase are as follows:

- The Town received contributed capital of \$3.4 million including infrastructure and library assets including land, a building, and books.
- Property tax revenue increased 4.6% due to growth in the tax base and continued diligence in the collection of property taxes.
- The Town received grants for development of recreational and public safety facilities.
- Expenses were almost flat. The Town took steps early in the fiscal year to reduce spending by keeping open positions vacant as long as feasible, delaying capital purchases and projects not in progress, and reducing other spending to the extent possible in response to concerns about national and global economic events.

Business-type Activities

Business-type activities increased the Town of Morehead City's net assets by \$1.3 million, accounting for 21.5% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Revenue from the business-type activities was \$6.5 million, which included \$1.3 million in capital contributions from grants and developer contributions of water and sewer assets.
- Charges for services increased by approximately \$115,000 or 2.3% over the prior year. The increase resulted from rate increases that became effective during the fiscal year. However, the effect of the increases on revenue was partially mitigated by increased conservation.
- Expenses increased 2.0% in the water and sewer operations and were essentially flat for solid waste.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Morehead City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Morehead City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Morehead City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3.3 million, while total fund balance was \$4.4 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 45.4% of total General Fund expenditures of \$7.3 million, while total fund balance represents 60.0% of that same amount.

At June 30, 2009, the governmental funds of the Town of Morehead City reported a combined fund balance of \$5.8 million, down from \$6.4 million the previous year. The General Fund fund balance was essentially flat. Growth in ad valorem taxes was more than offset by decreased sales tax, building inspection fees, and interest revenue as the Town felt the effect of the economic slowdown. Expenditure reductions were implemented early in the fiscal year in order to balance spending with revenue. The fund balance in the Fire/EMS Fund increased \$.4 million due primarily to increased service fee revenue and a reduction in expenditures in the same manner as described above. The fund balance in the Capital Project Funds decreased as the Town completed various projects.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services and acquire capital assets.

Total revenue exceeded the final budget by approximately \$205,000. The most significant favorable variances were in ad valorem taxes and some elements of other unrestricted intergovernmental taxes. Expenditures were tightly controlled, and the Town was able to comply with its budgetary requirements in all categories. The favorable variances were the result of expenditure reductions in operations and capital outlay to the extent feasible.

Proprietary Funds. Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year total \$6.3 million in the Water and Sewer fund and \$.4 million in the Solid Waste fund. Unrestricted net assets in the Water and Sewer Fund declined approximately \$149,000. The Solid Waste Fund was flat. Other factors concerning the finances of these funds were addressed in the discussion of the business-type activities.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2009, the Town had \$65.5 million (net of accumulated depreciation) in capital assets consisting primarily of buildings, improvements other than buildings, water and sewer operating plant and infrastructure. This amount represents a net increase of \$10.6 million, or 19.2%, over last year. The summary of capital assets at June 30, 2009 and 2008 is presented below:

Town of Morehead City's Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 4,135,646	\$ 3,549,954	\$ 432,586	\$ 293,042	\$ 4,568,232	\$ 3,842,996
Infrastructure	5,472,682	3,369,104	-	-	5,472,682	3,369,104
Buildings and other improvements	7,894,630	6,558,864	63,150	68,893	7,957,780	6,627,757
Equipment and vehicles	2,032,592	2,129,541	787,530	762,878	2,820,122	2,892,419
Operating plant	-	-	37,530,015	25,089,104	37,530,015	25,089,104
Construction in progress	2,111,489	832,821	5,054,292	12,288,150	7,165,781	13,120,971
Total	\$ 21,647,039	\$ 16,440,284	\$ 43,867,573	\$ 38,502,067	\$ 65,514,612	\$ 54,942,351

This year's major capital asset additions included:

- Infrastructure improvements - \$2.1 million
- Building and other improvements - \$1.3 million
- Water and sewer system improvements - \$12.4 million

More detailed information about the Town's capital assets is presented in Note 6 of the basic financial statements.

Long-term Debt. At June 30, 2009, the City had \$22.2 million of debt outstanding in installment purchases, capital leases and loans from the State of North Carolina and US Department of Agriculture (USDA). Details by type of debt are presented in the following table:

Town of Morehead City's Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Installment contracts	\$ 1,323,313	\$ 1,841,615	\$ 3,858,590	\$ 2,593,358	\$ 5,181,903	\$ 4,434,973
Capital leases	-	10,965	-	-	-	10,965
Notes payable	356,411	363,553	16,667,915	13,811,891	17,024,326	14,175,444
Total	\$ 1,679,724	\$ 2,216,133	\$ 20,526,505	\$ 16,405,249	\$ 22,206,229	\$ 18,621,382

The Town of Morehead City's total long-term debt increased by \$3.6 million (19.3%) during the past fiscal year. No new debt was issued by the governmental funds during the year and \$5 million of principal was paid on previously outstanding debt. \$4.8 million was borrowed for business-type activities. This increase was for continued construction of the new wastewater treatment facility and installation of an automated water meter reading system. Principal of \$7 million was paid on business-type previously outstanding debt. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Morehead City is \$186,156,521.

More detailed information about the Town's long-term obligations is presented in Note 8 of the basic financial statements.

Economic Factors and Next Year's Budget and Rates

The following economic indicators impact the Town's budget outlook:

- During calendar year 2008, 890 permits were issued with a value of \$27.0 million compared to \$48.0 million for 2007.
- The June 2009 unemployment rate for Carteret County was 7.4 percent compared to 11.2 percent for the state and 9.7 percent for the nation.

The following are highlights for the 2010 budgets for the governmental activities:

The general fund initial budget for 2009-2010 increased 5.3% from \$9.1 million to \$9.6 million. The increase is primarily being funded by restricted intergovernmental revenue as the Town moves ahead with several time sensitive grant related projects. A conservative budget approach was again taken for the remainder of the budget, as the strength of the economic recovery was unclear at the time the budget was adopted. Revenue from property taxes, one of the Town's largest revenue sources, is projected to be essentially flat. The property tax rate of \$.22 per hundred dollars of valuation was maintained. Revenue from sales tax was budgeted to be \$235,000 or 13.9% less than the previous year. And, revenue from building and inspection permits was expected to decline approximately \$95,500 (34.7%). Investment income is expected to decrease \$43,400 or 55.4%. On the expenditure side, the budget reduction is attributable to a freeze on salary increases, a freeze on some nonessential vacant positions and decreased capital spending. With few exceptions, only capital outlay related to grants or commitments in place at the prior year-end was funded.

The initial budget for 2009-2010 of \$3.1 million in the Fire/EMS Fund was \$166,500 less than the previous year. Operating expenditures were budgeted to be essentially flat and capital outlay was reduced in a similar manner as described above. Also, debt service was budgeted to decrease as two loans were paid off in the prior year.

The following are highlights for the 2010 budgets for the business-type activities:

The budget for the Water and Sewer Fund increased \$823,000 or 16.4%. The rise was primarily due to an increase in debt service related to a new wastewater treatment plant that was substantially completed in the prior year. A 10% rate increase and more accurate readings obtained from installation of an automated meter reading system were projected to generate increased water and sewer charges of \$346,000. The remainder was budgeted to be provided from appropriated fund balance, which had been increased over the past several years in anticipation of the new debt service. Congruent with the governmental funds, salary increases were frozen and capital spending, with few exceptions, was limited to projects in process.

The initial 2009-2010 budget for the Solid Waste Fund increased \$60,600 from the prior year. The budget included funding for a seasonal employee and operation of a second yard waste truck during the warm months. It also included reservation of funds for the future purchase of a replacement truck.

Contacting the Town's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability. Questions concerning this report or requests for additional financial information should be directed to the Town of Morehead City's Finance Department, 706 Arendell Street, Morehead City, NC 28557-4234.

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Town of Morehead City, North Carolina

Statement of Net Assets
June 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,653,701	\$ 7,597,820	\$ 13,251,521
Restricted cash and investments	93,753	362,583	456,336
Receivables:			
Due from governmental agencies	620,323	1,429	621,752
Local option sales tax receivable	408,188	-	408,188
Accounts receivable	279,270	-	279,270
Taxes receivable, net	38,526	-	38,526
Accrued interest on taxes receivable	5,254	-	5,254
Customer receivables, net	-	1,094,191	1,094,191
Notes receivable	-	528,471	528,471
Inventories	14,169	143,270	157,439
Prepaid expense	47,977	-	47,977
Capital assets:			
Land and construction in process	6,247,135	5,486,878	11,734,013
Other capital assets, net of depreciation	15,399,904	38,380,695	53,780,599
Total assets	28,808,200	53,595,337	82,403,537
Liabilities			
Accounts payable and accrued expenses	1,045,234	1,884,046	2,929,280
Accrued interest payable	25,241	264,719	289,960
Unearned revenue	77,913	20,000	97,913
Customer deposits	-	476,762	476,762
Noncurrent liabilities:			
Due within one year	422,787	1,590,924	2,013,711
Due in more than one year	1,828,530	18,991,697	20,820,227
Total liabilities	3,399,705	23,228,148	26,627,853
Net Assets			
Invested in capital assets, net of related debt	20,038,930	23,703,651	43,742,581
Restricted for:			
Public safety	21,119	-	21,119
Other	50,890	-	50,890
Unrestricted	5,297,556	6,663,538	11,961,094
Total net assets	\$ 25,408,495	\$ 30,367,189	\$ 55,775,684

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,435,315	\$ 78,207	\$ 33,871	\$ 107,028
Public safety	5,797,619	772,663	247,953	53,253
Highways and streets	922,125	61,406	275,479	1,866,084
Cultural and recreation	791,320	80,794	18,979	1,347,082
Library	138,631	31,336	55,000	30,806
Interest on long-term debt	72,241	-	-	-
Total governmental activities	9,157,251	1,024,406	631,282	3,404,253
Business-type activities:				
Water and sewer	4,405,690	4,249,027	-	1,290,629
Solid waste	803,220	810,719	-	4,045
Total business-type activities	5,208,910	5,059,746	-	1,294,674
Total primary government	\$ 14,366,161	\$ 6,084,152	\$ 631,282	\$ 4,698,927

General revenue:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Miscellaneous income, unrestricted

Total general revenue

Change in net assets

Net assets-beginning

Net assets-ending

See Notes to Financial Statements.

Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,216,209)	\$ -	\$ (1,216,209)
(4,723,750)	-	(4,723,750)
1,280,844	-	1,280,844
655,535	-	655,535
(21,489)	-	(21,489)
(72,241)	-	(72,241)
(4,097,310)	-	(4,097,310)
-	1,133,966	1,133,966
-	11,544	11,544
-	1,145,510	1,145,510
(4,097,310)	1,145,510	(2,951,800)
5,769,140	-	5,769,140
1,717,304	-	1,717,304
90,484	-	90,484
1,100,858	-	1,100,858
108,206	160,539	268,745
76,648	-	76,648
8,862,640	160,539	9,023,179
4,765,330	1,306,049	6,071,379
20,643,165	29,061,140	49,704,305
\$ 25,408,495	\$ 30,367,189	\$ 55,775,684

Town of Morehead City, North Carolina

Balance Sheet – Governmental Funds
June 30, 2009

	Major General	Major Fire/EMS District	Non-Major Governmental Funds	Totals
Assets:				
Cash and cash equivalents	\$ 4,114,269	\$ 918,988	\$ 620,444	\$ 5,653,701
Restricted cash equivalents	22,139	-	71,614	93,753
Receivables	917,081	429,226	-	1,346,307
Inventories	14,169	-	-	14,169
Prepaid items	-	47,977	-	47,977
Total assets	\$ 5,067,658	\$ 1,396,191	\$ 692,058	\$ 7,155,907
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 451,345	\$ 28,117	\$ 394,778	\$ 874,240
Unearned revenue	77,913	-	-	77,913
Deferred revenue	52,893	210,677	-	263,570
Accrued salaries	129,314	41,680	-	170,994
Total liabilities	711,465	280,474	394,778	1,386,717
Fund Balances:				
Reserved for restricted assets	22,139	-	71,614	93,753
Reserved for drug law enforcement	21,119	-	-	21,119
Reserved for sidewalk construction	121,068	-	-	121,068
Reserved for recreation facilities development	9,349	-	-	9,349
Reserved for inventories	14,169	-	-	14,169
Reserved for prepaid items	-	47,977	-	47,977
Reserved by State statute	864,188	218,549	-	1,082,737
Reserved for donations	28,751	-	-	28,751
Unreserved,				
Designated for subsequent year's expenditures	390,500	100,000	-	490,500
Undesignated, reported in				
General Fund	2,884,910	-	-	2,884,910
Special Revenue Funds	-	749,191	-	749,191
Capital Project Funds	-	-	225,666	225,666
Total fund balances	4,356,193	1,115,717	297,280	5,769,190
Total liabilities and fund balances	\$ 5,067,658	\$ 1,396,191	\$ 692,058	\$ 7,155,907

See Notes to Financial Statements.

Town of Morehead City, North Carolina

**Reconciliation of the Governmental Funds Balance Sheet to Net
Assets of Governmental Activities in the Statement of Net Assets
June 30, 2009**

Amounts reported for governmental activities in the statement of net assets are
different because:

Total fund balances for governmental funds	\$ 5,769,190
--	--------------

Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	21,647,039
---	------------

Liabilities for earned but deferred revenue in the fund statement.	263,570
--	---------

Accrued interest on property taxes - Statement of Net Assets	5,254
--	-------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,251,316)
---	-------------

Accrued interest payable on long-term liabilities not recorded in the fund statements	<u>(25,241)</u>
---	-----------------

	<u><u>\$ 25,408,496</u></u>
--	-----------------------------

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	Major General	Major Fire/EMS District	Non-Major Governmental Funds	Totals
Revenue				
Ad valorem taxes	\$ 5,102,815	\$ 663,288	\$ -	\$ 5,766,103
Other taxes and licenses	90,484	194,890	-	285,374
Unrestricted intergovernmental	2,623,272	-	-	2,623,272
Restricted intergovernmental	609,069	35,416	406,531	1,051,016
Permits and fees	250,492	-	-	250,492
Sales and services	171,944	508,672	-	680,616
Investment earnings	74,671	13,231	20,304	108,206
Miscellaneous	83,683	39,046	71,248	193,977
Total revenue	9,006,430	1,454,543	498,083	10,959,056
Expenditures				
Current:				
General government	1,420,643	-	29,841	1,450,484
Public safety	3,515,698	2,191,525	234,083	5,941,306
Highways and streets	814,785	-	279,739	1,094,524
Library	181,740	-	-	181,740
Recreation	474,926	-	1,514,304	1,989,230
Parks	361,952	-	-	361,952
Debt service:				
Principal	423,954	112,456	-	536,410
Interest	69,945	9,459	-	79,404
Total expenditures	7,263,643	2,313,440	2,057,967	11,635,050
Revenue over (under) expenditures	1,742,787	(858,897)	(1,559,884)	(675,994)
Other financing sources (uses)				
Transfers in	56,078	1,299,996	475,000	1,831,074
Transfers out	(1,774,996)	-	(56,078)	(1,831,074)
Total other financing sources (uses)	(1,718,918)	1,299,996	418,922	-
Net changes in fund balances	23,869	441,099	(1,140,962)	(675,994)
Fund balances, beginning	4,332,324	674,618	1,438,242	6,445,184
Fund balances, ending	\$ 4,356,193	\$ 1,115,717	\$ 297,280	\$ 5,769,190

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balance to the Statement of Activities of Governmental Funds
For the Year Ended June 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ (675,994)
---	--------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Increase in purchased capital assets, net of decrease in construction in progress	2,580,145
Depreciation expense	(622,180)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets:

Loss on sale of capital assets	(2,656)
Donated capital assets	3,251,446

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Decrease in deferred grant revenue	(342,553)
Increase in deferred EMS fees	54,252
Increase in deferred property tax revenue	3,037

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Additions to long-term liabilities	(23,739)
Retirement of long-term liabilities	536,409

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Decrease in accrued interest payable	7,163
--------------------------------------	-------

Total changes in net assets of governmental activities	<u>\$ 4,765,330</u>
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See Notes to Financial Statements.

Town of Morehead City, North Carolina

General Fund and Fire/EMS District Annually Budgeted Major Funds
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2009

	General Fund			Variance with Final Budget
	Budget, Original	Budget, Final	Actual	
Revenue				
Ad valorem taxes	\$ 5,013,000	\$ 5,013,000	\$ 5,102,815	\$ 89,815
Other taxes	85,000	85,000	90,484	5,484
Unrestricted intergovernmental	2,636,400	2,521,400	2,623,272	101,872
Restricted intergovernmental	680,050	629,130	609,069	(20,061)
Permits and fees	309,500	266,900	250,492	(16,408)
Sales and services	131,750	161,950	171,944	9,994
Investment earnings	78,400	78,400	74,671	(3,729)
Miscellaneous	43,000	46,000	83,683	37,683
Total revenue	8,977,100	8,801,780	9,006,430	204,650
Expenditures				
Current:				
General government	1,710,125	1,699,145	1,420,643	278,502
Public safety	3,625,599	3,649,379	3,515,698	133,681
Highways and streets	982,950	959,300	814,785	144,515
Recreation and parks	742,900	958,900	836,878	122,022
Library	197,750	229,950	181,740	48,210
Contingency	18,577	18,577	-	18,577
Debt service	493,899	493,899	493,899	-
Total expenditures	7,771,800	8,009,150	7,263,643	745,507
Revenue over expenditures	1,205,300	792,630	1,742,787	950,157
Other financing sources (uses)				
Transfers in	-	70,000	56,078	(13,922)
Transfers out	(1,300,000)	(1,775,000)	(1,774,996)	4
Issuance of debt				
Fund balance appropriated	94,700	912,370	-	(912,370)
Total other financing sources (uses)	(1,205,300)	(792,630)	(1,718,918)	(926,288)
Revenue over expenditures and other financing uses	\$ -	\$ -	23,869	\$ 23,869
Fund balance, beginning			4,332,324	
Fund balance, ending			<u>\$ 4,356,193</u>	

See Notes to Financial Statements.

Fire/EMS District Fund

Budget, Original	Budget, Final	Actual	Variance with Final Budget
\$ 658,300	\$ 658,300	\$ 663,288	\$ 4,988
-	-	-	-
149,000	149,000	194,890	45,890
-	-	35,416	35,416
-	-	-	-
440,000	440,000	508,672	68,672
9,200	9,200	13,231	4,031
-	-	39,046	39,046
1,256,500	1,256,500	1,454,543	198,043

-	-	-	-
2,857,350	2,857,350	2,177,929	679,421
-	-	-	-
-	-	-	-
-	-	-	-
70,448	70,448	-	70,448
334,702	234,702	121,915	112,787
3,262,500	3,162,500	2,299,844	862,656

(2,006,000)	(1,906,000)	(845,301)	1,060,699
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1,300,000	1,300,000	1,299,996	(4)
-	(100,000)	(97,092)	2,908
500,000	500,000	-	(500,000)
206,000	206,000	-	(206,000)
2,006,000	1,906,000	1,202,904	(703,096)

\$ -	\$ -	357,603	\$ 357,603
------	------	---------	------------

689,744

\$ 1,047,347

Town of Morehead City, North Carolina

Statement of Net Assets
Proprietary Funds
June 30, 2009

	Water and Sewer Fund	Solid Waste Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 7,331,657	\$ 266,163	\$ 7,597,820
Restricted cash equivalents	362,583	-	362,583
Receivables	938,689	156,931	1,095,620
Inventories	143,270	-	143,270
Total current assets	8,776,199	423,094	9,199,293
Noncurrent assets			
Notes receivable	528,471	-	528,471
Capital assets, net	43,836,049	31,524	43,867,573
Total noncurrent assets	44,364,520	31,524	44,396,044
Total assets	53,140,719	454,618	53,595,337
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	1,794,885	55,122	1,850,007
Current maturities of long-term debt	1,553,580	-	1,553,580
Unearned revenue	20,000	-	20,000
Customer deposits	476,762	-	476,762
Accrued salaries	32,588	1,451	34,039
Accrued compensated absences-current portion	37,170	174	37,344
Accrued interest payable	264,719	-	264,719
Total current liabilities	4,179,704	56,747	4,236,451
Noncurrent liabilities			
Accrued compensated absences	18,772	-	18,772
Installment notes	18,972,925	-	18,972,925
Total noncurrent liabilities	18,991,697	-	18,991,697
Total liabilities	23,171,401	56,747	23,228,148
Net assets			
Invested in capital assets, net of related debt	23,672,127	31,524	23,703,651
Unrestricted	6,297,191	366,347	6,663,538
Total net assets	\$ 29,969,318	\$ 397,871	\$ 30,367,189

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Revenue, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2009

	Water and Sewer Fund	Solid Waste Fund	Totals
Operating revenue			
Charges for sales and services	\$ 4,012,743	\$ 809,443	\$ 4,822,186
Miscellaneous	236,284	1,276	237,560
Total operating revenue	4,249,027	810,719	5,059,746
Operating expenses			
Cost of sales and services	2,489,832	791,017	3,280,849
Depreciation	1,493,080	12,203	1,505,283
Total operating expenses	3,982,912	803,220	4,786,132
Operating income	266,115	7,499	273,614
Nonoperating revenue (expense)			
Interest revenue	156,285	4,254	160,539
Interest expense and fiscal charges	(422,778)	-	(422,778)
Total nonoperating revenue (expense)	(266,493)	4,254	(262,239)
Capital contributions	1,290,629	4,045	1,294,674
Net income	1,290,251	15,798	1,306,049
Net assets, beginning	28,679,067	382,073	29,061,140
Net assets, ending	\$ 29,969,318	\$ 397,871	\$ 30,367,189

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2009

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 4,364,100	\$ 799,222	\$ 5,163,322
Cash paid to suppliers for goods and services	(2,347,694)	(757,780)	(3,105,474)
Cash paid to employees	(33,488)	(34,469)	(67,957)
Customer deposits	(8,568)	-	(8,568)
Net cash provided by operating activities	1,974,350	6,973	1,981,323
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(5,816,658)	-	(5,816,658)
Proceeds from interfund payable	97,093	-	97,093
Debt issued	4,791,515	-	4,791,515
Principal paid on long-term debt	(670,259)	-	(670,259)
Interest paid on long-term debt	(222,062)	-	(222,062)
Contributed capital	236,498	4,045	240,543
Net cash provided by (used for) capital and related financing activities	(1,583,873)	4,045	(1,579,828)
Cash Flows from Investing Activities:			
Interest on investments	156,285	4,254	160,539
Net cash provided by investing activities	156,285	4,254	160,539
Net increase in cash and cash equivalents	546,762	15,272	562,034
Cash and cash equivalents, beginning	7,147,478	250,891	7,398,369
Cash and cash equivalents, ending	\$ 7,694,240	\$ 266,163	\$ 7,960,403

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)

Proprietary Funds

For the Year Ended June 30, 2009

Page 2 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating income	\$ 266,115	\$ 7,499	\$ 273,614
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,493,080	12,203	1,505,283
Change in assets and liabilities:			
Notes receivable	(72,264)	-	(72,264)
Receivables	187,336	(11,497)	175,839
Inventory	(25,423)	-	(25,423)
Accounts payable and accrued liabilities	120,462	(1,014)	119,448
Customer deposits	(8,568)	-	(8,568)
Accrued salaries	4,501	253	4,754
Accrued compensated absences	9,111	(471)	8,640
Net cash provided by operating activities	\$ 1,974,350	\$ 6,973	\$ 1,981,323
Supplemental Disclosure of Non-cash Transactions:			
Donated assets	\$ 1,054,131	\$ -	\$ 1,054,131
Accounts payable for constructed capital assets	\$ 1,619,022	\$ -	\$ 1,619,022

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2009

	Special Separation Allowance Pension Trust Fund
Assets	
Cash and cash equivalents	\$ 95,447
Total assets	<u>95,447</u>
Net Assets	
Assets held in trust for pension benefits	95,447
Total net assets	<u>\$ 95,447</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2009

	Special Separation Allowance Pension Trust Fund
Additions	
Contributions	\$ 44,200
Interest	1,726
Total additions	<u>45,926</u>
Deductions	
Benefits paid	11,789
Total deductions	<u>11,789</u>
Net increase	34,137
Net assets reserved for employees' pension benefits	
Beginning of year	<u>61,310</u>
End of year	<u><u>\$ 95,447</u></u>

See Notes to Financial Statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Town of Morehead City was incorporated in 1858 and operates under the Council-Manager form of government. Services include police, fire and EMS, highways and streets, cultural and recreation, planning and inspections, water and sewer, solid waste disposal, and general and administrative services.

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

Reporting Entity

The Town of Morehead City is a municipal corporation governed by an elected mayor and a five-member council. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14, *The Financial Reporting Entity*, have been considered and the Town has no component units or entities for which it is considered to be financially accountable, and is not itself a component unit of any other government.

Basis of Presentation

Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenue and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific segment or function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly classified as program revenue are reported as general revenue.

Separate Fund Financial Statements are provided for the governmental funds, proprietary funds, and fiduciary fund, even though the latter is excluded from the Government-wide Financial Statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the Fund Financial Statements. All remaining governmental and enterprise funds are aggregated by fund category and reported as non-major funds.

The accounts of the Town are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (expenses). Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Funds are used to account for the Town's general governmental activities. The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales tax, and State shared revenues. The primary expenditures are for public safety, street maintenance and construction, parks and recreation, and general government services.

Fire and EMS District Fund - The Fire and EMS District Fund is used to account for activities of the EMS and fire department including revenue and services for districts outside of the Town limits.

The Town reports the following non-major governmental funds:

Capital Project Funds – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Town has six capital project funds, the individual descriptions of which are disclosed in the supplemental non-major fund-types section.

Proprietary Funds include the following major funds:

Water and Sewer Enterprise Fund - The Water and Sewer Enterprise Fund accounts for the water and sewer activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for pumping and distribution of water to and collection and treatment of sewage from the Town's customers. There are six Capital Project Funds and two Capital Reserve Funds which are consolidated with the Water and Sewer Enterprise Fund (the operating fund) for financial reporting purposes.

Solid Waste Enterprise Fund - The Solid Waste Enterprise Fund accounts for the solid waste disposal activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for collection and disposal of solid waste for the Town's customers.

Additionally, the government reports the following fund types:

Fiduciary Funds account for the assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Town has the following Fiduciary Fund:

Pension Trust Fund - Trust Funds are used to account for assets held in a trustee capacity. The Town maintains a pension trust fund, the Law Enforcement Officers' Pension Trust Fund. This fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

The government-wide financial and proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. Property taxes are recognized as revenue in the year for which they are levied. Revenue from grants and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available when it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 90 days of the end of the current fiscal period, except for property taxes. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest from long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The Town considers all revenue available if it is collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Therefore the net receivable amount is offset by a deferred revenue. Carteret County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County including the Town of Morehead City. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Carteret County from March 2008 through February 2009 apply to the fiscal year ended June 30, 2009. Uncollected taxes that were billed during this period are shown as a receivable in these statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1, 2009 through the fiscal year-end apply to the 2009-2010 fiscal year and are not shown as receivables at June 30, 2009.

Sales taxes and certain intergovernmental revenue, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Certain other intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenue. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants and then by general revenue.

Receivables for unbilled Water and Sewer Fund utility services are recorded at year-end. As permitted by GAAP, the Town has elected to apply only applicable Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its enterprise operations to the extent those standards do not conflict with or contradict guidance of the GASB.

The Town reports deferred revenue on its balance sheet for governmental funds. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Town before it has a legal claim to them, as when

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet for governmental funds and revenue is recognized.

Budgetary Data

The Town's budgets are adopted on the modified accrual basis of accounting as required by the North Carolina General Statutes. The State allows long-term interfund loans to be treated as other financing sources and uses for budgetary purposes.

The following types of budgets have been adopted by the following funds:

Annual Ordinance Funds	Project Ordinance Funds
General Fund	MATS Capital Project Fund
Fire/EMS District Fund	Baseball Park Capital Project Fund
Water and Sewer Fund	2005 Street Improvements Capital Project Fund
Solid Waste Fund	Recreation Center Capital Project Fund
Water and Sewer Capital Project Fund*	School Property Acquisition/Improvements Capital Project Fund
Water and Sewer Capital Reserve Fund*	Newport River Water Access Capital Project Fund
Water and Sewer Rebatable	Water/Sewer Extensions Capital Project Fund*
Capital Reserve Fund*	WWTP Improvement Capital Project Fund*
	Water Treatment Capital Project Fund*
	Water Reuse Capital Project Fund*
	Auto Meter Read System Capital Project Fund*
	Lift Station Improvements Grant Project Fund*

*Funds considered a part of the Town's Water and Sewer Fund.

All annual appropriations lapse at the fiscal year end and project appropriations lapse at the end of the project. Expenditures may not legally exceed appropriations at the functional level for the general fund and at the fund level for all other funds. Any revisions that alter the total expenditures of any fund must be approved by the governing board. Budget amounts are as originally adopted, or as amended by the Town as of June 30, 2009. During the year, several amendments to the original budget became necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed:

- | | |
|----------|---|
| April 30 | Each department head will transmit to the budget officer the budget requests and revenue estimates for their department for the budget year. |
| June 1 | The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time. |
| July 1 | The budget ordinance shall be adopted by the governing board. |

Note 1. Summary of Significant Accounting Policies (Continued)

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are insured or collateralized as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund. Investments at June 30, 2009 consist of amounts in the NCCMT which are stated at fair value, which is the NCCMT's share price.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash equivalents for purposes of reporting cash flows.

Restricted Cash Equivalents

The unexpended debt proceeds received by the Town to finance specific projects are classified as restricted assets for the General Fund and the Water and Sewer Enterprise Fund because their use is restricted to the purpose for which the notes were originally issued and they collateralize the associated debt.

Ad Valorem Taxes Receivable

Property (other than registered motor vehicles) is assessed for tax purposes as of January 1. The value at that date determines the basis for the tax levy for the fiscal year beginning July 1. Property taxes are not formally levied until the budget adoption (July 1) and are not due until September 1 (lien date). Taxes are past due on the following January 6. By the following June 30, taxes receivable are delinquent and are not considered a resource to finance current year operations and are recorded as deferred revenue until collected. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is reported net of such discounts.

Registered motor vehicles taxes are described elsewhere in Note 1.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on historical collection experience.

Inventories and Prepaid Items

Inventories in governmental funds are reported at cost, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The amount is recorded as an asset, offset by a reservation of fund balance in an equal amount. Inventories of Enterprise Funds are reported at the lower of cost or market, using the first-in/first-out (FIFO) method. The inventories consist of various items used in the maintenance of existing utility systems and expansion of new systems. Depending on the eventual use of these inventories, these items may be expensed in the future as maintenance of existing systems or capitalized as a part of the development of new systems.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (short-term interfund loans) or "advances to/from other funds" (long-term interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the Fund Financial Statements, are offset by a fund balance reserve account in the applicable governmental fund to indicate that they are not available for the appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which includes land, buildings, equipment and infrastructure assets (e.g. roads, bridges, traffic signals and other similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 for equipment, vehicles, building and other improvements and \$100,000 for infrastructure and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated using the straight-line method over the remaining useful lives of the related fixed assets, as applicable.

Costs associated with construction in progress are recorded in their respective capital asset category upon approval by the Town Council, which approximates the completion date.

The range of estimated useful lives for the major classification of depreciable assets is as follows:

Buildings and other improvements	10 - 50 years
Operating plant	20 - 50 years
Equipment and vehicles	3 - 20 years
Infrastructure	20 - 50 years

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether the impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Town are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

North Carolina General Statute [G.S. 159-13(b)(16)] restricts appropriation of fund balances for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenue arising from cash receipts as these amounts stand at the close of the fiscal year preceding the budget year.

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Reserved:

Reserved for sidewalk construction - represents fees accepted by the Town which shall be used only for the construction of sidewalks.

Reserved for drug law enforcement - portion of fund balance available for appropriation, but legally segregated for drug law enforcement expenditures. It represents the balance of unexpended funds allocated from federally forfeited property proceeds.

Reserved for recreation facilities development - represents fees accepted by the Town which shall be used only for acquiring, maintaining or improving subdivisional recreational land or facilities.

Reserved for restricted assets - portion of fund balance available for appropriation, but legally segregated by loan agreements for capital expenditures.

Reserved for inventories - represents the total amount of inventories in the General Fund.

Reserved for prepaid items - represents the total costs prepaid applicable to future accounting periods.

Reserved for donations - portion of fund balance available for appropriation, but legally segregated for general activities related to various projects by donors.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Reserved by State statute - in certain governmental funds, a portion of fund balance is thus designated as these amounts represent the portion of fund balances applicable to various assets such as accounts receivable and interfund receivables not yet realized in cash, which are not available for appropriation as defined by North Carolina General Statute.

Unreserved:

Designated for subsequent year's expenditures – portion of fund balance available for appropriation that has been designated for the adopted 2009 – 2010 budget ordinance.

Undesignated - represents the amount of fund balance which is available for future appropriations.

Compensated Absences

The Town's vacation policies provide for the accumulation of up to thirty (30) days earned vacation leave for all employees with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences, and the salary related payments are recorded as the leave is earned. For the governmental funds, the Town records the liquidation of the liability in the fund in which the underlying salary is paid, primarily the General and Fire/EMS funds.

The Town has adopted a last-in, first-out method of using accumulated compensated time. The portion of the accumulated vacation pay which is expected to be liquidated in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Statement of Cash Flows

For purposes of reporting cash flows, the Town considers all of its deposits in the pool (including restricted cash) to be cash equivalents. Proprietary fund highly liquid debt investments outside the pool are considered cash equivalents if purchased with a maturity of three months or less.

Note 2. Stewardship, Compliance and Accountability

Noncompliance with North Carolina General Statutes

Parks and Recreation is not complying with NC General Statute 159-32 which requires that all municipalities deposit cash when it exceeds \$250. The Town has implemented control procedures to track daily cash receipts collected at the parks and recreation department including regular reviews by the city manager.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 2. Stewardship, Compliance and Accountability (Continued)

Budgetary GAAP Reporting Reconciliation

As described in Note 1, governmental funds are budgeted on a modified accrual basis as required by North Carolina General Statutes. However, the State allows long-term interfund loans to be treated as other financing sources and uses for budgetary purposes. In addition, capital outlays are treated as prepaid expense on a budgetary basis. A budget to GAAP reconciliation for these transactions is presented as follows:

Excess of Revenue and Financing Sources Over Expenditures
And Other Financing Uses - Fire/EMS District Fund

Budgetary basis	\$	357,603
Amortization of prepaid costs reported as prepaid expense on GAAP basis		(13,596)
Interfund loans treated as transfers on budgetary basis		97,092
GAAP basis	\$	441,099

Note 3. Cash and Cash Equivalents

Petty cash: At June 30, 2009, the Town had petty cash funds on hand totaling \$1,650.

Deposits: All deposits of the Town in excess of federal depository insurance coverage are collateralized under the Pooling Method. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling Method depository. The Town has no formal policy regarding the custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At year end, the Town's deposits had a carrying amount of \$10,325,914 and bank balance of \$10,380,010. Of the bank balance, \$6,529,875 was covered by federal depository insurance, and \$3,850,135 was covered by collateral held under the Pooling Method.

Investments: At June 30, 2009, the Town had \$3,475,740 in investments which were limited to participation in the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk, interest rate risk, concentration of credit risk or custodial credit risk.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 4. Receivables

Receivables at June 30, 2009, consist of the following:

	Major General	Major Fire & EMS District	Major Water & Sewer Fund	Major Solid Waste Fund	Total
Receivables					
Local option sales tax	\$ 408,188	\$ -	\$ -	\$ -	\$ 408,188
Property tax	77,906	1,346	-	-	79,252
Allowance for uncollectibles	(40,726)	-	-	-	(40,726)
	37,180	1,346	-	-	38,526
Accounts receivable:					
Services	5,976	273,294	938,689	155,502	1,373,461
Allowance for uncollectibles	-	-	-	-	-
	5,976	273,294	938,689	155,502	1,373,461
Due from governmental agencies	465,737	154,586	-	1,429	621,752
Net total receivables	\$ 917,081	\$ 429,226	\$ 938,689	\$ 156,931	\$ 2,441,927

Note 5. Interfund Transactions and Balances

The Town transferred \$1,299,996 from the Major General Fund to the Major Fire/EMS District Fund to pay for a portion of the cost of operations of the receiving fund. The Town also transferred \$475,000 from the Major General Fund to Non-Major Governmental Funds to fund a portion of the cost of construction occurring in those funds. Additionally, \$56,078 was transferred from Non-Major Governmental Funds to the Major General Fund to fund Capital Outlay.

The final installment of \$97,092 for the interfund loan was paid during the current year. The interfund loan was for internal financing of the Fire/EMS construction of a new facility.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets

Capital Asset activity for the year ended June 30, 2009, was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,549,954	\$ 585,692	\$ -	\$ 4,135,646
Construction in progress	832,821	2,207,526	(928,858)	2,111,489
Total capital assets not being depreciated	4,382,775	2,793,218	(928,858)	6,247,135
Capital assets being depreciated:				
Buildings and other improvements	7,650,134	1,590,826	-	9,240,960
Infrastructure	3,474,152	2,198,713	-	5,672,865
Equipment and vehicles	4,731,488	177,692	(110,599)	4,798,581
Total capital assets being depreciated	15,855,774	3,967,231	(110,599)	19,712,406
Less accumulated depreciation for:				
Buildings and other improvements	(1,091,270)	(255,060)	-	(1,346,330)
Infrastructure	(105,048)	(95,135)	-	(200,183)
Equipment and vehicles	(2,601,947)	(271,985)	107,943	(2,765,989)
Total accumulated depreciation	(3,798,265)	(622,180)	107,943	(4,312,502)
Total capital assets being depreciated, net	12,057,509			15,399,904
Governmental activity capital assets, net	\$ 16,440,284			\$ 21,647,039

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 293,042	\$ 139,544	\$ -	\$ 432,586
Construction in progress	12,288,150	5,534,303	(12,768,161)	5,054,292
Total capital assets not being depreciated	12,581,192	5,673,847	(12,768,161)	5,486,878
Capital assets being depreciated:				
Buildings and other improvements	206,548	-	-	206,548
Equipment and vehicles	1,287,373	166,920	(17,440)	1,436,853
Operating plant	36,516,275	13,798,182	(3,115,875)	47,198,582
Total capital assets being depreciated	38,010,196	13,965,102	(3,133,315)	48,841,983
Less accumulated depreciation for:				
Buildings and other improvements	(137,655)	(5,743)	-	(143,398)
Equipment and vehicles	(568,222)	(130,065)	17,440	(680,847)
Operating plant	(11,427,171)	(1,357,271)	3,115,875	(9,668,567)
Total accumulated depreciation	(12,133,048)	(1,493,079)	3,133,315	(10,492,812)
Total capital assets being depreciated, net	25,877,148			38,349,171
Water and Sewer Fund capital assets, net:	38,458,340			43,836,049
Solid Waste Fund				
Capital assets being depreciated:				
Equipment and vehicles	167,050	\$ -	\$ -	167,050
Less accumulated depreciation for:				
Equipment and vehicles	(123,323)	(12,203)	-	(135,526)
Total capital assets being depreciated, net	43,727			31,524
Solid Waste Fund capital assets, net:	43,727			31,524
Business-type activity capital assets, net:	\$ 38,502,067			\$ 43,867,573

Depreciation expense was charged to the functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 57,731
Public safety	258,564
Highway and streets	127,195
Parks and recreation	159,913
Library	18,777
	<u>\$ 622,180</u>

Business-type activities:

Water and Sewer Fund	\$ 1,493,079
Solid Waste Fund	12,203
	<u>\$ 1,505,282</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets (Continued)

Construction Commitments

As of June 30, 2009, the Town has active construction projects. The Town's commitments with contractors at June 30, 2009, are as follows:

Project	Spent to Date	Remaining Commitment
Wastewater Treatment Plant	\$ 13,423,799	\$ 243,910
Automatic Meter Reading System	2,032,156	60,419
Lift Station Replacement and Renovation	-	1,299,800
Newport River Water Access Improvements	-	93,000
Baseball Park:		
Stormwater Control Work	551,321	17,679
Water/Sewer Services	74,779	4,641
Lighting	17,600	25,400
Fencing	15,555	41,685
	<u>\$ 16,115,210</u>	<u>\$ 1,786,534</u>

Note 7. Deferred/Unearned Revenue

The balance in deferred revenue on the fund statements and unearned revenue on the fund and government-wide statements at year-end is composed of the following:

	Deferred Revenue	Unearned Revenue
General Fund		
Prepaid licenses and taxes	\$ -	\$ 52,604
Prepaid fees	-	25,309
Property taxes receivable	37,180	-
Grant receivable	15,713	-
	<u>52,893</u>	<u>77,913</u>
Fire/EMS Fund		
Ambulance fees receivable	210,677	-
	<u>210,677</u>	<u>-</u>
	<u>\$ 263,570</u>	<u>\$ 77,913</u>

Note 8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

Changes in Long-term Liabilities – Governmental Activities

Long-term liability activity for governmental activities for the year ended June 30, 2009, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Accrued compensated absences	\$ 348,574	\$ 19,381	\$ -	\$ 367,955	\$ 175,609
Net pension obligation	199,281	4,357	-	203,638	-
Capital leases	10,965	-	10,965	-	-
Notes payable	363,553	-	7,142	356,411	7,437
Installment contracts	1,841,615	-	518,302	1,323,313	239,741
Total	<u>\$ 2,763,988</u>	<u>\$ 23,738</u>	<u>\$ 536,409</u>	<u>\$ 2,251,317</u>	<u>\$ 422,787</u>

For governmental activities, compensated absences are generally liquidated by the General Fund and Fire/EMS Fund.

The Town has a \$1,700,000 installment purchase contract to finance the construction of improvements to street and drainage conditions of the Town. In March 2005, the contract was refinanced. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.39% annually. As of June 30, 2009, the remaining obligation due under this agreement totaled \$95,783.

The Town has a \$1,200,000 installment purchase contract to finance the construction of improvements to street and drainage conditions of the Town. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 3.89% annually. As of June 30, 2009, \$71,614 remains in a restricted account and the remaining obligation due under this agreement totaled \$960,000.

The Town has a \$330,000 installment purchase contract to finance the acquisition of vehicles and equipment. The agreement has a term of 5 years and is collateralized by a purchase-money deed of trust. The note bears interest as a rate of 2.73% annually. As of June 30, 2009, the remaining obligation due under this agreement totaled \$267,530.

The Town has a \$182,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2009, \$10,627 remains in a restricted account and the remaining obligation due under this agreement totaled \$171,970.

The Town has a \$195,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2009, \$11,512 remains in a restricted account and the remaining obligation due under this agreement totaled \$184,441.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

Changes in Long-term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2009, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Notes payable	\$ 13,811,891	\$ 3,041,515	\$ 185,491	\$ 16,667,915	\$ 935,491
Installment contracts	2,593,358	1,750,000	484,768	3,858,590	618,089
Accrued compensated absences	47,476	8,640	-	56,116	37,344
Total	<u>\$ 16,452,725</u>	<u>\$ 4,800,155</u>	<u>\$ 670,259</u>	<u>\$ 20,582,621</u>	<u>\$ 1,590,924</u>

The Town has a \$4,000,000 installment purchase contract to finance the acquisition and construction of improvements to the water and sewer system. It is expected to be repaid from proprietary revenue. In January 2004, the contract was refinanced. The agreement has a term of 18 years and is collateralized by a purchase-money deed of trust. The note bears interest at an annual rate of 3.99%. As of June 30, 2009, the remaining obligation due under this agreement totaled \$1,176,445.

The Town has a \$1,700,000 installment purchase contract to finance the construction of improvements to the water and sewer system. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note shall bear interest at a rate of 4.45% annually. As of June 30, 2009, \$181,118 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,044,175.

The Town has a \$1,750,000 installment purchase contract to finance the construction of improvements to the water and sewer system. The agreement has a term of 7 years and is collateralized by a purchase-money deed of trust. The note shall bear interest at a rate of 3.33% annually. As of June 30, 2009, \$181,464 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,637,970.

The Town has a \$1,700,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the water and sewer system. The note is payable from water and sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.6%. As of June 30, 2009, the remaining obligation due under this agreement totaled \$1,190,000.

The Town has a \$959,333 installment note payable to the State of North Carolina over a 19-year term to finance the acquisition and construction of improvements to the water system. The note is payable from water revenue or sales tax distributions to the Town and bears an annual interest rate of 4.02%. As of June 30, 2009, the remaining obligation due under this agreement totaled \$807,859.

The Town has a \$1,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the sewer system. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.36%. As of June 30, 2009, \$1,000,000 has been drawn down and is repayable to the State. As of June 30, 2009, the remaining obligation due under this agreement totaled \$800,000.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

The Town has a \$15,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the construction of a new waste water treatment plant. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.265%. As of June 30, 2009, \$13,870,056 has been drawn down from the \$15,000,000 of available funds and is repayable to the State. The total remaining funds available for use is \$1,129,944. As of June 30, 2009, the remaining obligation due under this agreement totaled \$13,870,056.

The following table summarizes the annual requirements to amortize all long-term debt outstanding (excluding accrued compensated absences and unfunded pension contributions):

	Principal	Interest
Governmental activities		
2009-2010	\$ 247,178	\$ 60,234
2010-2011	153,695	52,953
2011-2012	155,828	47,709
2012-2013	158,023	42,402
2013-2014	88,742	37,515
2015-2019	449,427	135,178
2020-2024	220,498	57,977
2025-2029	74,049	36,646
2030-2034	90,634	20,061
2035-2039	41,650	2,574
	<u>1,679,724</u>	<u>493,249</u>

	Principal	Interest
Business-type activities, Water and Sewer Fund		
2009-2010	1,553,580	707,962
2010-2011	1,577,467	517,856
2011-2012	1,602,288	470,627
2012-2013	1,627,994	422,514
2013-2014	1,330,380	376,427
2015-2019	5,522,439	1,374,185
2020-2024	4,592,456	765,795
2025-2029	2,719,901	285,022
	<u>20,526,505</u>	<u>4,920,388</u>
	<u>\$ 22,206,229</u>	<u>\$ 5,413,637</u>

Interest paid on the above obligations during 2009 totaled \$502,096. State statutes provide for a legal debt limit of 8 percent of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2009 amounts to \$186,156,521.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. Town of Morehead City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.87% and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2009, 2008 and 2007 were \$263,192, \$258,729, and \$231,485, respectively, and were equivalent to the required amount.

Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

The Town of Morehead City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The separation allowance is reported in the Town's report as a pension trust fund and no stand-alone financial report is issued.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2008, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	40
Total	<u>41</u>

2. *Summary of Significant Accounting Policies.*

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

Method Used to Value Investments. Investments are reported at fair value.

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits. For the current year, the Town contributed \$44,200 to the plan. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2007 actuarial valuation using the projected unit credit actuarial cost method and level dollar closed amortization method (remaining period 23 years). The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year, and (c) inflation at 3.75%. The assumptions did not include postretirement benefit increases or cost of living adjustments.

The Town's annual pension cost and net pension obligation for the Special Separation Allowance as of June 30, 2009 are as follows:

Employer annual required contribution	\$	46,292
Interest on net pension obligation		14,448
Adjustment to annual required contribution		(12,183)
Annual pension cost		48,557
Employer contributions made for fiscal year		44,200
Increase in net pension obligation		4,357
Net pension obligation beginning of fiscal year		199,281
Net pension obligation end of fiscal year	\$	203,638

Fiscal Year Ended	Three-Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation End of Year
June 30, 2007	\$ 46,593	108.06%	\$ 196,832
June 30, 2008	46,349	94.72%	199,281
June 30, 2009	48,557	91.03%	203,638

4. Funded Status and Funding Progress.

As of December 31, 2008, the most recent actuarial valuation date, the plan was 13.36 percent funded. The actuarial accrued liability for benefits was \$458,867, and the actuarial value of assets was \$61,310, resulting in an unfunded actuarial liability (UAAL) of \$397,557.

The covered payroll (annual payroll of active employees covered by the plan) was \$1,565,387, and the ratio of the UAAL to the covered payroll was 25.4 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 9. Pension Plan Obligations (Continued)

Supplemental Retirement Income Plan for Law Enforcement:

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2009 were \$104,699, which consisted of \$78,648 from the Town and \$26,051 from the law enforcement officers.

Note 10. Other Post-employment Benefits

According to a Town resolution, the Town provides post-employment healthcare benefits to retirees of the Town until becoming fully covered by Medicare, provided the employee has at least ten years of creditable continuous service immediately prior to retirement and meets one of the following:

- (1) 30 years of participation in the NC LGERS and is receiving benefits,
- (2) has attained 55 years of age and has a minimum of 25 years of participation in the NC LGERS and is receiving benefits, or
- (3) has attained 62 years of age and has a minimum of 15 years of participation in the NC LGERS and is receiving benefits.

The Town can choose to discontinue this benefit by Council approval. Currently, ten retirees are eligible for post-employment health benefits. For fiscal year ended June 30, 2009, the Town made payments for post-employment health benefit premiums of \$47,525. The Town obtains health care coverage through private insurers.

Note 11. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State.

Notes to Financial Statements

Note 11. Other Employment Benefits (Continued)

Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2009, the Town made contributions to the State for death benefits of \$4,958. The contributions to the Death Benefit Plan represented .07 percent and .14 percent of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Town is a participant in two insurance pools administered by the North Carolina League of Municipalities. One pool (IRFFNC) provides coverage for property damage and general liability (including auto and law enforcement officers). Major policies and their limits of coverage include: public officials (\$3 million) and law enforcement liability (\$3 million), vehicle liability (\$2 million), public employee scheduled and blanket bonds (\$250,000), general liability (\$2 million), municipal equipment (\$1,225,274), vehicles (\$2,530,840) and property (\$35,616,093). The other pool (NCRIMA) provides workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence losses in excess of \$1,000,000 for general liability and \$500,000 for property damage, and single occurrence losses of \$500,000 for workers' compensation. The Town provides employee health insurance through Blue Cross Blue Shield up to an unlimited lifetime benefit. The Town carries commercial coverage for all other risks of loss. There has been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because certain properties owned by the Town are in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of up to \$500,000 per structure through the NFIP. The Town is also eligible to and has purchased commercial flood insurance for \$193,400 for contents.

In accordance with G. S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$250,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

Note 13. Claims, Judgments and Contingent Liabilities

At June 30, 2009, the Town was a defendant in various lawsuits; however, no provision was made in the financial statements for any contingent liabilities. In the opinion of management and the Town attorney, the ultimate outcome of these legal matters will not have a material adverse effect on the Town's financial position.

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds as a result of future audits will be immaterial.

Note 14. Jointly Governed Organizations

The Town, in conjunction with seven counties and twenty-eight other municipalities, established the Eastern Carolina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the

Notes to Financial Statements

Note 14. Jointly Governed Organizations (Continued)

Council's governing board. The Town paid membership fees of \$2,962 to the Council during the fiscal year ended June 30, 2009.

Note 15. Significant Effects of Subsequent Events

On September 8, 2009, the City Council approved a contract with D.H. Griffin Construction Company for up to \$5,105,500 to construct the new E911 building at the location of the old cafeteria building on Bridges Street.

The Town purchased a piece of property on the Morehead waterfront for \$1,100,000 on October 15, 2009. As part of this purchase the Town has agreed to waive certain future specific fees, if any, incurred by the seller in future construction projects. The amount of the waiver of future fees is limited to \$200,000.

In June 2009, the Town was notified that they had been awarded \$2,100,000 from North Carolina Clean Water State Revolving Fund from the American Recovery and Reinvestment Act of 2009 ("ARRA") allocation to fund the Replacement/Rehabilitation of Lift Station #9 and #12. Also, in June 2009, the Town was notified that they had been awarded \$3,000,000 from Public Water Supply from their ARRA allocation to fund phase 1 of the Water Treatment Plant at the Bridges Street well site. Both of these awards are in the form of loans that are fifty percent forgiven and fifty percent repayable at zero percent interest.

Note 16. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2009 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the Town of Morehead City.

- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" will be effective for the Town beginning with its year ending June 30, 2010.
- GASB Statement Number 51 "Accounting and Financial Reporting for Intangible Assets" will be effective for the Town beginning with its year ending June 30, 2010.
- GASB Statement Number 53 "Accounting and Financial Reporting for Derivative Instruments" will be effective for the Town beginning with its year ending June 30, 2010.
- GASB Statement Number 54, "Fund Balance Reporting" will be effective for the Town beginning with its year ending June 30, 2011.

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REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
 - Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
 - Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
-

Town of Morehead City, North Carolina

Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percent of Covered Payroll ((b-a)/c)
12/31/03	\$ 15,101	\$ 363,570	\$ 348,469	4.15%	\$ 1,298,332	26.84%
12/31/04	23,099	457,644	434,545	5.05%	1,270,504	34.20%
12/31/05	34,765	396,829	362,064	8.76%	1,350,793	26.80%
12/31/06	52,935	398,590	345,655	13.28%	1,453,223	23.79%
12/31/07	66,781	440,929	374,148	15.15%	1,508,655	24.80%
12/31/08	61,310	458,867	397,557	13.36%	1,565,387	25.40%

Town of Morehead City, North Carolina

Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed
2004	\$ 40,318	7.44%
2005	44,838	78.06%
2006	50,349	89.38%
2007	43,862	102.59%
2008	44,174	84.51%
2009	46,292	95.48%

Notes to the Required Schedules:

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	22 years
Asset valuation method	market value
Actuarial assumptions	
Investment rate of return	7.25%
Projected salary increases	Ranging from 4.5% to 12.3%
*includes inflation at	3.75%
Cost of living adjustments	None

MAJOR GOVERNMENTAL FUNDS

- General Fund
 - Fire/EMS District Fund
-

GENERAL FUND

The General Fund is the principal fund of the Town and is used to account for all activities of the Town not included in other specific funds. The General Fund accounts for the normal recurring activities of the Town. These activities are funded principally by property and sales taxes on individuals and businesses, and grants from other governmental units.

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –

Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts for Year Ended June 30, 2008

(Page 1 of 5)

	2009			2008
	Final Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Ad valorem taxes:				
Current year	\$ 4,987,000	\$ 5,032,861	\$ 45,861	\$ 4,793,935
Prior years	20,000	34,384	14,384	35,122
Interest and penalties	6,000	35,570	29,570	21,679
Total ad valorem taxes	5,013,000	5,102,815	89,815	4,850,736
Other taxes:				
Privilege licenses	67,000	73,393	6,393	70,030
Motor vehicle lease tax	18,000	17,091	(909)	17,924
Total other taxes	85,000	90,484	5,484	87,954
Unrestricted intergovernmental:				
Local option sales tax	1,570,000	1,522,414	(47,586)	1,722,987
Franchise tax fees	475,000	563,751	88,751	482,789
Beer and wine tax	37,000	39,031	2,031	38,648
Carteret County ABC revenue	75,000	90,684	15,684	92,722
Video programming sales tax	135,000	144,135	9,135	136,788
Telecommunications tax	150,000	178,590	28,590	163,375
Piped natural gas tax	12,000	14,777	2,777	12,611
Payment in lieu of taxes	67,400	69,890	2,490	71,955
Total unrestricted intergovernmental	2,521,400	2,623,272	101,872	2,721,875
Restricted intergovernmental:				
Powell Bill	272,800	273,860	1,060	299,699
NCDOT bike/pedestrian grant	-	-	-	13,340
Stormwater drainage grant	-	-	-	13,636
School resource officer	111,000	111,371	371	102,823
COPS fast grant	-	-	-	9,866
Controlled substance tax	4,100	4,454	354	14,122
Restitution drug funds	-	625	625	635
Newport River beach access grant	17,300	17,344	44	-
DWR harbor realignment study	31,500	31,127	(373)	-
Carteret Co. harbor realignment study	15,750	-	(15,750)	-
CAMA S. 11th St.	-	-	-	20,182
CAMA planning grant	-	-	-	10,500
CAMA	2,000	2,625	625	3,425
Waterfront dock maintenance dredging grant	-	-	-	27,604

(Continued)

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts for Year Ended June 30, 2008

(Page 2 of 5)

	2009			2008
	Final Budget	Actual	Variance, with Final Budget	Actual
Mosquito control grant	\$ 1,500	\$ 1,619	\$ 119	\$ 10,658
Federal forfeiture funds	9,900	9,919	19	-
Teen Court grant	49,500	37,117	(12,383)	50,557
Webb Library funding	55,000	55,000	-	55,000
Housing Authority grant	35,000	40,228	5,228	27,772
Miscellaneous police grants	23,780	23,780	-	16,154
Total restricted governmental	629,130	609,069	(20,061)	675,973
Permits and fees:				
Building permits and inspection fees	182,000	164,808	(17,192)	265,175
Sidewalk extension fees	61,000	61,406	406	10,472
Recreation development fees	5,900	5,900	-	438
Franchise fees	18,000	18,378	378	20,703
Total permits and fees	266,900	250,492	(16,408)	296,788
Sales and services:				
Court cost and fees	6,000	4,360	(1,640)	5,789
Lot cleaning fees	-	1,525	1,525	1,181
Cemetery fees	1,200	1,955	755	1,155
Recreation concessions	6,000	6,945	945	7,284
Sale of cemetery lots	5,000	11,467	6,467	13,250
Mail box rent and mail fees	6,500	5,382	(1,118)	6,942
Library fees and charges	33,950	31,336	(2,614)	25,021
Leases	34,800	41,025	6,225	21,471
Recreation fees and charges	68,500	67,949	(551)	86,468
Total sales and services	161,950	171,944	9,994	168,561
Investment earnings	78,400	74,671	(3,729)	203,816
Miscellaneous revenue:				
Restricted donation-recreation	-	1,635	1,635	24,108
Restricted donations - other	3,000	2,144	(856)	1,735
Vet Memorial donation	500	600	100	400
Insurance reimbursements/refunds	-	841	841	15,214
Sale of surplus property	2,500	3,818	1,318	13,262
Miscellaneous	40,000	74,645	34,645	86,485
Total miscellaneous revenue	46,000	83,683	37,683	141,204
Total revenue	8,801,780	9,006,430	204,650	9,146,907

(Continued)

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts for Year Ended June 30, 2008

(Page 3 of 5)

	2009			2008
	Final Budget	Actual	Variance, with Final Budget	Actual
Expenditures				
General government:				
Mayor - town council				
Salaries and benefits		\$ 32,905		\$ 25,519
Other		4,181		5,002
	\$ 46,589	37,086	\$ 9,503	30,521
Administration:				
Salaries, wages and benefits		166,447		200,129
Other		14,136		14,123
	184,752	180,583	4,169	214,252
Finance:				
Salaries, wages and benefits		167,201		233,654
Other		8,710		11,984
	203,678	175,911	27,767	245,638
Central services:				
Employee benefits		98,858		102,979
Professional services		129,446		187,116
Capital outlay		106,798		51,046
Other		252,333		243,842
	767,106	587,435	179,671	584,983
Community projects	66,839	59,020	7,819	71,506
Cemetery, buildings and grounds:				
Salaries, wages and benefits		232,379		231,626
Capital outlay		41,020		66,905
Other		89,187		88,677
	406,395	362,586	43,809	387,208
Garage:				
Salaries, wages and benefits		12,881		39,433
Capital outlay		-		982
Other		5,141		14,730
	23,786	18,022	5,764	55,145
Total general government	1,699,145	1,420,643	278,502	1,589,253

(Continued)

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts for Year Ended June 30, 2008

(Page 4 of 5)

	2009			2008
	Final Budget	Actual	Variance, with Final Budget	Actual
Public safety:				
Police:				
Salaries, wages and benefits		\$ 2,571,937		\$ 2,495,746
Capital outlay		141,753		142,386
Other		338,212		353,674
	\$ 3,121,630	3,051,902	\$ 69,728	2,991,806
Inspections:				
Salaries, wages and benefits		412,414		399,527
Other		38,000		64,706
	514,749	450,414	64,335	464,233
Federal drug forfeit funds:				
Other	13,000	13,382	(382)	8,139
Total public safety	3,649,379	3,515,698	133,681	3,464,178
Highways and streets:				
Transportation:				
Salaries, wages and benefits		418,590		421,594
Capital outlay		43,220		514,768
Other		271,643		290,620
	842,550	733,453	109,097	1,226,982
Powell Bill funds	116,750	81,332	35,418	116,136
Total highways and streets	959,300	814,785	144,515	1,343,118
Recreation:				
Salaries, wages and benefits		342,685		344,551
Capital outlay		5,448		76,252
Other		126,793		322,672
Total recreation	515,850	474,926	40,924	743,475
Parks:				
Salaries, wages and benefits		31,382		-
Capital outlay		194,217		-
Other		136,353		-
Total parks	443,050	361,952	81,098	-

(Continued)

Town of Morehead City, North Carolina

General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)
Year Ended June 30, 2009
With Comparative Actual Amounts for Year Ended June 30, 2008
(Page 5 of 5)

	2009		2008	
	Final Budget	Actual	Variance, with Final Budget	Actual
Library:				
Salaries, wages and benefits		\$ 77,052		\$ 70,943
Capital outlay		61,886		120,874
Other		42,802		60,859
Total library	\$ 229,950	181,740	\$ 48,210	252,676
Debt service:				
Principal retirement		423,954		410,270
Interest fees		69,945		87,352
Total debt service	493,899	493,899	-	497,622
Contingency	18,577	-	18,577	-
Total expenditures	8,009,150	7,263,643	745,507	7,890,322
Revenue over expenditures	792,630	1,742,787	950,157	1,256,585
Other financing sources (uses)				
Fund balance appropriated	912,370	-	(912,370)	-
Transfers in:				
Recreation Grant Center Capital Project Fund	70,000	56,078	(13,922)	-
Transfers out:				
Fire/EMS District Fund	(1,300,000)	(1,299,996)	4	(1,299,996)
Baseball Park Capital Project Fund	(475,000)	(475,000)	-	(710,000)
School Building Acquisition/Improvement Capital Project Fund	-	-	-	(77,725)
MATS Capital Project Fund	-	-	-	(183,000)
Total other financing uses	(792,630)	(1,718,918)	(926,288)	(2,270,721)
Revenue and other financing sources over expenditures and other financing uses	\$ -	23,869	\$ 23,869	(1,014,136)
Fund balance, beginning		<u>4,332,324</u>		<u>5,346,460</u>
Fund balance, ending		<u>\$ 4,356,193</u>		<u>\$ 4,332,324</u>

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FIRE/EMS DISTRICT FUND

This fund is used to account for activities of the EMS and fire department including revenues and services for districts outside of town limits.

Town of Morehead City, North Carolina

Fire/EMS District Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –

Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts for Year Ended June 30, 2008

(Page 1 of 2)	2009			2008
	Budget	Actual	Variance with Final Budget	Actual
Revenue				
Operating revenue				
Restricted - intergovernmental				
Ad valorem taxes	\$ 658,300	\$ 663,288	\$ 4,988	\$ 660,259
Local sales tax	149,000	194,890	45,890	174,462
Federal grants	-	35,416	35,416	-
Charges for services	440,000	508,672	68,672	397,574
Total operating revenue	1,247,300	1,402,266	154,966	1,232,295
Investment earnings	9,200	13,231	4,031	20,841
Miscellaneous	-	39,046	39,046	36,787
Total revenue	1,256,500	1,454,543	198,043	1,289,923
Expenditures				
Public safety:				
Salaries, wages, and benefits	1,807,200	1,689,183	118,017	1,590,074
Other	490,650	441,591	49,059	467,678
Capital outlay	559,500	47,155	512,345	362,308
	2,857,350	2,177,929	679,421	2,420,060

(Continued)

Town of Morehead City, North Carolina

Fire/EMS District Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts for Year Ended June 30, 2008

	Budget	Actual	Variance with Final Budget	Actual
Debt service:				
Principal retirement	\$ 203,758	\$ 112,456	\$ 91,302	\$ 50,004
Interest fees	30,944	9,459	21,485	10,019
	<u>234,702</u>	<u>121,915</u>	<u>112,787</u>	<u>60,023</u>
Total expenditures	3,092,052	2,299,844	792,208	2,480,083
Revenue under expenditures	(1,835,552)	(845,301)	990,251	(1,190,160)
Other financing sources (uses):				
Fund balance appropriated	206,000	-	(206,000)	-
Issuance of debt	500,000	-	(500,000)	330,000
Contingency	(70,448)	-	70,448	-
Operating transfer in:				
General fund	1,300,000	1,299,996	(4)	1,299,996
Operating transfer out:				
Water and Sewer fund - loan	(100,000)	(97,092)	2,908	(92,020)
Total other financing sources	1,835,552	1,202,904	(632,648)	1,537,976
Revenue and other financing sources over expenditures	\$ -	357,603	\$ 357,603	347,816
Fund balance, beginning		<u>689,744</u>		<u>341,928</u>
Fund balance, ending		<u><u>\$ 1,047,347</u></u>		<u><u>\$ 689,744</u></u>
Reconciliation:				
Revenues and other financing sources over expenditures, above		\$ 357,603		\$ 347,816
Capital outlay which is prepaid expense on GAAP basis		-		10,620
Amortization of prepaid costs reported as prepaid expense on GAAP basis		(13,596)		-
Transfers out which are interfund loans on GAAP basis		<u>97,092</u>		<u>92,020</u>
Revenues and other financing sources over expenditures, GAAP		<u><u>\$ 441,099</u></u>		<u><u>\$ 450,456</u></u>

NON-MAJOR GOVERNMENTAL FUNDS

Non-Major Capital Project Funds – Capital Project Funds account for all resources used for current and future acquisition and/or construction of major capital facilities by the Town except for those financed by proprietary funds. The Town has five non-major capital project funds.

- **Newport River Water Access Capital Project Fund** - This fund is used to account for funds accumulated for water access improvements at the Newport River access site.
- **MATS Capital Project Fund** - This fund is used to account for funds accumulated for construction of a multi-purpose trail related to Morehead City Alternative Transportation System program.
- **Baseball Park Capital Project Fund** - This fund is used to account for funds accumulated for acquisition of land and development of a baseball park.
- **2005 Street Improvements Capital Project Fund** – This fund is used to account for funds accumulated to improve street and drainage conditions in the Town.
- **Recreation Center Capital Project Fund** - This fund is used to account for funds accumulated for renovation of the recreation facilities of the Town.
- **School Property Acquisition/Improvement Capital Project Fund** - This fund is used to account for funds accumulated for acquisition of the Charles Wallace Building and additional renovations to said property.

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Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2009

With Comparable Actual Amounts for 2008

	Newport River Water Access Capital Project Fund	MATS Capital Project Fund	Baseball Park Capital Project Fund
Assets:			
Cash and cash equivalents	\$ 81,699	\$ 44,853	\$ 437,010
Restricted cash equivalents	-	-	-
Due from other capital project funds	-	-	-
Receivables	-	-	-
Total assets	\$ 81,699	\$ 44,853	\$ 437,010
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 75,301	\$ -	\$ 245,293
Due to other capital project funds	-	-	-
Deferred revenue	-	-	-
Total liabilities	75,301	-	245,293
Fund balances (deficits):			
Reserved for restricted assets	-	-	-
Unreserved			
Undesignated (deficit)	6,398	44,853	191,717
Total fund balances (deficits)	6,398	44,853	191,717
Total liabilities and fund balances	\$ 81,699	\$ 44,853	\$ 437,010

2005 Street Improvements Capital Project Fund	Recreation Center Capital Project Fund	School Property Capital Project Fund	Totals	
			2009	2008
\$ -	\$ 4,340	\$ 52,542	\$ 620,444	\$ 1,286,651
71,614	-	-	71,614	183,156
-	21,070	-	21,070	10,496
-	-	-	-	569,172
<u>\$ 71,614</u>	<u>\$ 25,410</u>	<u>\$ 52,542</u>	<u>\$ 713,128</u>	<u>\$ 2,049,475</u>

\$ 50,455	\$ -	\$ 23,729	\$ 394,778	\$ 275,765
21,070	-	-	21,070	10,496
-	-	-	-	324,972
<u>71,525</u>	<u>-</u>	<u>23,729</u>	<u>415,848</u>	<u>611,233</u>

71,614	-	-	71,614	183,156
(71,525)	25,410	28,813	225,666	1,255,086
<u>89</u>	<u>25,410</u>	<u>28,813</u>	<u>297,280</u>	<u>1,438,242</u>
<u>\$ 71,614</u>	<u>\$ 25,410</u>	<u>\$ 52,542</u>	<u>\$ 713,128</u>	<u>\$ 2,049,475</u>

Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Year Ended June 30, 2009

With Comparative Actual Amounts for 2008

	Newport River Water Access Capital Project Fund	MATS Capital Project Fund	Baseball Park Capital Project Fund
Revenue			
Restricted intergovernmental	\$ 100,000	\$ -	\$ -
Investment earnings	1,918	2,086	14,597
Miscellaneous	-	-	2,500
Total revenue	101,918	2,086	17,097
Expenditures			
General government	-	-	-
Capital outlay	100,134	146,192	1,321,306
Total expenditures	100,134	146,192	1,321,306
Revenue over (under) expenditures	1,784	(144,106)	(1,304,209)
Other financing sources (uses)			
Transfers outs	-	-	-
Transfers in	-	-	475,000
Total other financing sources	-	-	475,000
Revenue and other financing sources over (under) expenditures and other financing uses	1,784	(144,106)	(829,209)
Fund balance (deficit), beginning	4,614	188,959	1,020,926
Fund balance, ending	\$ 6,398	\$ 44,853	\$ 191,717

2005 Street Improvements Capital Project Fund	Recreation Center Capital Project Fund	School Property Capital Project Fund	2009 Totals	2008 Totals
\$ -	\$ 253,278	\$ 53,253	\$ 406,531	\$ 543,569
(282)	(923)	2,908	20,304	33,029
-	-	68,748	71,248	202,105
(282)	252,355	124,909	498,083	778,703
-	-	26,256	26,256	23,282
133,547	92,864	237,668	2,031,711	1,282,391
133,547	92,864	263,924	2,057,967	1,305,673
(133,829)	159,491	(139,015)	(1,559,884)	(526,970)
-	(56,078)	-	(56,078)	-
-	-	-	475,000	970,725
-	(56,078)	-	418,922	970,725
(133,829)	103,413	(139,015)	(1,140,962)	443,755
133,918	(78,003)	167,828	1,438,242	994,487
\$ 89	\$ 25,410	\$ 28,813	\$ 297,280	\$ 1,438,242

Town of Morehead City, North Carolina

Newport River Water Access Capital Project Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual

From Inception and for the Year Ended June 30, 2009

	Project	Actual		Project
	Authorization	Prior	Current	To Date
		Years	Year	
Revenue				
Restricted intergovernmental				
CAMA Public Acces grant	\$ 600,000	\$ -	\$ -	\$ -
Carteret County Water Access funds	500,000	100,000	100,000	200,000
WAMI grant	1,150,000	-	-	-
DENR/DWR Dredging grant	50,000	-	-	-
Investment earnings	-	1,648	1,918	3,566
Total revenue	2,300,000	101,648	101,918	203,566
Expenditures				
Water access improvements	2,300,000	97,034	100,134	197,168
Total expenditures	2,300,000	97,034	100,134	197,168
Revenue over expenditures	\$ -	\$ 4,614	1,784	\$ 6,398
Fund balance, beginning			<u>4,614</u>	
Fund balance, ending			<u>\$ 6,398</u>	

Town of Morehead City, North Carolina

MATS Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2009

	Project		Actual	
	Authorization	Prior	Current	Project
		Years	Year	To Date
Revenue				
Restricted intergovernmental				
NCDOT Grant	\$ 287,909	\$ 287,909	\$ -	\$ 287,909
Carteret County Grant	35,989	35,989	-	35,989
Interest earnings	4,500	5,050	2,086	7,136
Total revenue	328,398	328,948	2,086	331,034
Expenditures				
Trail improvements	914,697	725,773	146,192	871,965
Total expenditures	914,697	725,773	146,192	871,965
Revenue under expenditures	(586,299)	(396,825)	(144,106)	(540,931)
Other financing sources				
Transfers in				
Street Improvements Fund	128,000	127,485	-	127,485
General Fund	458,299	458,299	-	458,299
Total other financing sources	586,299	585,784	-	585,784
Revenue and other financing sources				
over (under) expenditures	\$ -	\$ 188,959	(144,106)	\$ 44,853
Fund balance, beginning			188,959	
Fund balance, ending			<u>\$ 44,853</u>	

Town of Morehead City, North Carolina

Baseball Park Capital Project Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual

From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental				
LWCF grant	\$ 250,000	\$ 107,600	-	\$ 107,600
PARTF grant	150,000	136,600	-	136,600
Interest revenue	-	17,006	14,597	31,603
Miscellaneous revenue - donations	285,000	235,000	2,500	237,500
Total revenue	685,000	496,206	17,097	513,303
Expenditures				
Baseball park construction	2,307,000	618,537	1,321,306	1,939,843
Total expenditures	2,307,000	618,537	1,321,306	1,939,843
Revenue under expenditures	(1,622,000)	(122,331)	(1,304,209)	(1,426,540)
Other financing sources				
Transfer from General Fund	1,612,000	1,137,000	475,000	1,612,000
Transfer from Mayberry/20th Street	10,000	6,257	-	6,257
Total other financing sources	1,622,000	1,143,257	475,000	1,618,257
Revenue and other financing sources over (under) expenditures	\$ -	\$ 1,020,926	(829,209)	\$ 191,717
Fund balance, beginning			<u>1,020,926</u>	
Fund balance, ending			<u>\$ 191,717</u>	

Town of Morehead City, North Carolina

2005 Street Improvements Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Interest revenue	\$ 43,400	\$ 42,982	\$ (282)	\$ 42,700
Total revenue	43,400	42,982	(282)	42,700
Expenditures				
Capital outlay - highways and streets	1,243,400	1,109,064	133,547	1,242,611
Total expenditures	1,243,400	1,109,064	133,547	1,242,611
Revenue under expenditures	(1,200,000)	(1,066,082)	(133,829)	(1,199,911)
Other financing sources				
Issuance of debt	1,200,000	1,200,000	-	1,200,000
Total other financing sources	1,200,000	1,200,000	-	1,200,000
Revenue and other financing sources over (under) expenditures	\$ -	\$ 133,918	(133,829)	\$ 89
Fund balance, beginning			133,918	
Fund balance, ending			\$ 89	

Town of Morehead City, North Carolina

Recreation Center Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2009

	Project	Actual		Project
	Authorization	Prior	Current	To Date
		Years	Year	
Revenue				
Restricted intergovernmental				
PARTF grant	\$ 468,325	\$ 215,047	\$ 253,278	\$ 468,325
Interest revenue	-	26,068	(923)	25,145
Total revenue	468,325	241,115	252,355	493,470
Expenditures				
Capital outlay - building improvements	1,100,000	950,793	92,864	1,043,657
Total expenditures	1,100,000	950,793	92,864	1,043,657
Revenue over (under) expenditures	(631,675)	(709,678)	159,491	(550,187)
Other financing sources				
Transfer in from General Fund	631,675	631,675	(56,078)	575,597
Total other financing sources	631,675	631,675	(56,078)	575,597
Revenue and other financing sources				
over (under) expenditures	\$ -	\$ (78,003)	103,413	\$ 25,410
Fund balance, beginning			(78,003)	
Fund balance, ending			<u>\$ 25,410</u>	

Town of Morehead City, North Carolina

School Property Acquisition/Improvement Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental				
Carteret County	\$ 1,400,000	\$ -	\$ 53,253	\$ 53,253
Interest revenue	6,800	6,761	2,908	9,669
Miscellaneous revenue-rent	138,000	67,105	68,748	135,853
Total revenue	1,544,800	73,866	124,909	198,775
Expenditures				
General government		23,702	26,256	49,958
Capital outlay				
General government		999,824	3,585	1,003,409
Public safety		110,237	234,083	344,320
Total expenditures	7,230,525	1,133,763	263,924	1,397,687
Revenue under expenditures	(5,685,725)	(1,059,897)	(139,015)	(1,198,912)
Other financing sources				
Issuance of debt	4,458,000	-	-	-
Transfer from General Fund	1,227,725	1,227,725	-	1,227,725
Total other financing sources	5,685,725	1,227,725	-	1,227,725
Revenue and other financing sources over (under) expenditures	\$ -	\$ 167,828	(139,015)	\$ 28,813
Fund balance, beginning			167,828	
Fund balance, ending			\$ 28,813	

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ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the government's Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or the government's Board has decided that periodic determination of net income is appropriate for accountability purposes.

The Town maintains two enterprise funds.

Water and Sewer Fund - This fund is used to account for the water and sewer services, and also maintains related construction projects.

Solid Waste Fund - This fund is used to account for revenues and expenditures related to waste disposal services.

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts For The Year Ended June 30, 2008

(Page 1 of 3)

	2009			2008
	Budget	Actual	Variance with Final Budget	Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 2,054,000	\$ 1,903,509	\$ (150,491)	\$ 1,858,611
Water charges	2,210,000	2,077,456	(132,544)	1,978,178
Tap fees	32,000	31,778	(222)	38,525
Total charges for sales and services	4,296,000	4,012,743	(283,257)	3,875,314
Miscellaneous	295,000	333,376	38,376	312,672
Total operating revenue	4,591,000	4,346,119	(244,881)	4,187,986
Operating expenditures				
Cost of sales and services -				
Water, wells and pumping stations:				
Other		163,911		227,956
Capital outlay		14,180		72,688
Total cost of sales and services - water, wells and pumping stations	287,500	178,091	109,409	300,644
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits		721,928		712,672
Other		653,862		668,988
Capital outlay		55,181		350,187
Total cost of sales and services - water distribution and sewer collection	1,699,896	1,430,971	268,925	1,731,847
Cost of sales and services -				
Lift stations and sewer mains:				
Other		108,367		109,949
Capital outlay		12,615		-
Total cost of sales and services - lift stations and sewer mains	248,300	120,982	127,318	109,949

(Continued)

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts For The Year Ended June 30, 2008

(Page 2 of 3)

	2009			2008
	Budget	Actual	Variance with Final Budget	Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits		\$ 348,894		\$ 319,844
Other		293,515		273,471
Capital outlay		56,718		7,761
Total cost of sales and services - wastewater treatment plant	\$ 873,200	699,127	\$ 174,073	601,076
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits		146,952		139,080
Other		25,913		23,477
Total cost of sales and services - water billing and collection	230,279	172,865	57,414	162,557
Total operating expenditures	3,339,175	2,602,036	737,139	2,906,073
Operating revenue over operating expenditures	1,251,825	1,744,083	492,258	1,281,913
Nonoperating revenue (expenditures)				
Interest revenue	111,100	119,109	8,009	232,941
Extension fees	-	-	-	-
Interest and fiscal charges	(450,401)	(422,688)	27,713	(205,398)
Bond and installment agreement principal payments	(782,973)	(670,259)	112,714	(543,468)
Total nonoperating expenditures	(1,122,274)	(973,838)	148,436	(515,925)
Revenue over expenditures	129,551	770,245	640,694	765,988

(Continued)

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts For The Year Ended June 30, 2008

(Page 3 of 3)

	2009			2008
	Budget	Actual	Variance with Final Budget	Actual
Other financing sources (uses)				
Capital contributions	\$ 42,775	\$ 50,020	\$ 7,245	\$ 48,234
Transfers out:				
Water Treatment Capital Project Fund	(60,000)	(60,000)	-	(50,000)
Water Reuse Capital Project Fund	-	-	-	(227,000)
Auto Meter Read System Capital Project Fund	(100,000)	(100,000)	-	(350,000)
Water and Sewer Capital Project Funds	(96,000)	(70,071)	25,929	(247,380)
Lift Station Grant Project Fund	(50,000)	(50,000)	-	-
Fund balance appropriated	283,674	-	(283,674)	-
Fund balance appropriated	(150,000)	-	150,000	-
Total other financing uses	(129,551)	(230,051)	(100,500)	(826,146)
Revenue and other sources over expenditures and other financing uses	\$ -	\$ 540,194	\$ 540,194	\$ (60,158)

Reconciliation of modified accrual basis to
full accrual basis:

Revenue and other financing sources over expenditures and other financing uses	\$ 540,194	\$ (60,158)
Depreciation	(1,493,080)	(1,243,642)
Bond and installment agreement principal payment	670,259	543,468
Repayment of interfund receivable by fire/EMS Fund	(97,092)	(92,020)
Capitalized expenditures included in capital outlay and other expenditures	139,132	422,875
Transfer to Water and Sewer Capital Project Funds	280,071	874,380
Contributed capital from notes receivable	(50,922)	(49,008)
Repairs and maintenance expense from capital project funds	(26,928)	(388,287)
Contributed capital assets	1,054,131	579,853
Interest expense in capital project funds	(90)	3,002
Contributed capital	237,400	901,899
Interest earned from capital project funds	37,176	81,625
Net income, full accrual basis	\$ 1,290,251	\$ 1,573,987

Town of Morehead City, North Carolina

Solid Waste Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts For The Year Ended June 30, 2008

	2009			2008
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 800,000	\$ 809,443	\$ 9,443	\$ 755,822
Miscellaneous	-	1,276	1,276	1,300
Total operating revenue	800,000	810,719	10,719	757,122
Operating expenditures				
Contracted Services	625,500	630,863	(5,363)	609,338
Salaries, wages and employee benefits	47,100	34,251	12,849	42,974
Operating	138,400	125,903	12,497	134,271
Total operating expenditures	811,000	791,017	19,983	786,583
Operating revenue over (under) operating expenditures	(11,000)	19,702	30,702	(29,461)
Nonoperating revenue				
Interest revenue	5,000	4,254	(746)	9,728
Restricted intergovernmental	-	4,045	4,045	-
Total nonoperating revenue	5,000	8,299	3,299	9,728
Revenue over (under) expenditures	(6,000)	28,001	34,001	(19,733)
Other financing sources (uses)				
Contingency	(48,000)	-	48,000	-
Fund balance appropriated	54,000	-	(54,000)	-
Total other financing sources	6,000	-	(6,000)	-
Revenue and other financing sources over (under) expenditures	\$ -	\$ 28,001	\$ 28,001	\$ (19,733)
Reconciliation of modified accrual basis with full accrual basis:				
Revenue over expenditures				
and other financing uses		\$ 28,001		\$ (19,733)
Depreciation		(12,203)		(12,242)
Net income (loss), full accrual basis		\$ 15,798		\$ (31,975)

Town of Morehead City, North Carolina

Water and Sewer Capital Reserve Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts For The Year Ended June 30, 2008

	2009			2008
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Impact fees	\$ 150,000	\$ 136,112	\$ (13,888)	\$ 173,512
Interest	1,000	7,841	6,841	30,421
Total revenue	151,000	143,953	(7,047)	203,933
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(150,200)	(17,526)	132,674	(108,516)
WWTP capital project fund	(375,000)	(375,000)	-	(300,000)
Water reuse capital project fund	(29,800)	(29,800)	-	-
Appropriated fund balance	404,000	-	(404,000)	-
Total other financing uses	(151,000)	(422,326)	(271,326)	(408,516)
Revenue and other financing sources under other financing uses	\$ -	\$ (278,373)	\$ (278,373)	\$ (204,583)

Town of Morehead City, North Carolina

Water and Sewer Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts For The Year Ended June 30, 2008

	2009			2008
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Interest	\$ -	\$ -	\$ -	\$ 4,889
Total revenue	-	-	-	4,889
Expenditures				
Interest	-	90	(90)	-
Repair and extension	80,000	950	79,050	399,889
Improvements	30,000	-	30,000	-
Sewer rehab pilot	50,000	4,234	45,766	21,075
Land purchase	200	13,292	(13,092)	28,241
Engineering	8,000	-	8,000	-
Slip lining/I & I reduction	100,000	21,558	78,442	59,201
SCADA/Well control system	50,000	48,513	1,487	247,380
Contracted services	8,000	-	8,000	-
Total expenditures	326,200	88,637	237,563	755,786
Revenue under expenditures	(326,200)	(88,637)	237,563	(750,897)
Other financing sources				
Transfers in:				
Water and sewer fund	96,000	70,071	(25,929)	247,380
Water and Sewer capital reserve fund	150,200	17,526	(132,674)	108,516
Water and sewer rebatable capital reserve fund	80,000	950	(79,050)	194,899
Contributed capital	-	-	-	204,990
Total other financing sources	326,200	88,547	(237,653)	755,785
Revenue and other financing sources over (under) expenditures	\$ -	\$ (90)	\$ (90)	\$ 4,888

Town of Morehead City, North Carolina

Water and Sewer Rebatable Capital Reserve Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2009

With Comparative Actual Amounts For The Year Ended June 30, 2008

	2009			2008
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Contributed capital	\$ 10,000	\$ 19,389	\$ 9,389	\$ 14,181
Interest	3,000	3,622	622	20,618
Total revenue	13,000	23,011	10,011	34,799
Other financing sources (uses)				
Transfers out:				
Water and sewer fund	(80,000)	(950)	79,050	-
Water and sewer capital project fund	-	-	-	(194,899)
Fund balance appropriated	67,000	-	(67,000)	-
Total other financing uses	(13,000)	(950)	12,050	(194,899)
 Revenue over (under) other financing uses	 \$ -	 \$ 22,061	 \$ 22,061	 \$ (160,100)

Town of Morehead City, North Carolina

Water Treatment Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ -	\$ 47	\$ 832	\$ 879
Total revenue	-	47	832	879
Expenditures				
Water treatment improvements	3,110,000	-	315,968	315,968
Total expenditures	3,110,000	-	315,968	315,968
Revenue over (under) expenditures	(3,110,000)	47	(315,136)	(315,089)
Other financing sources				
Issuance of debt	1,500,000	-	-	-
Issuance of debt	1,500,000	-	-	-
Transfer from water/sewer fund	110,000	50,000	60,000	110,000
Total other financing sources	3,110,000	50,000	60,000	110,000
Revenue and other financing sources over (under) expenditures	\$ -	\$ 50,047	\$ (255,136)	\$ (205,089)

Town of Morehead City, North Carolina

Water Reuse Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
CWMTF Reuse Grant	\$ 91,000	\$ -	\$ 81,899	\$ 81,899
Interest	-	212	3,011	3,223
Total revenue	91,000	212	84,910	85,122
Expenditures				
Water and sewer improvements	347,800	-	269,865	269,865
Total expenditures	347,800	-	269,865	269,865
Revenue over (under) expenditures	(256,800)	212	(184,955)	(184,743)
Other financing sources				
Transfer from water and sewer capital reserve fund	29,800	-	29,800	29,800
Transfer from water and sewer fund	227,000	227,000	-	227,000
Total other financing sources	256,800	227,000	29,800	256,800
Revenue and other financing sources over (under) expenditures	\$ -	\$ 227,212	\$ (155,155)	\$ 72,057

Town of Morehead City, North Carolina

Auto Meter Read System Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ -	\$ 327	\$ 8,805	\$ 9,132
Total revenue	-	327	8,805	9,132
Expenditures				
Water and sewer improvements	2,105,000	57	2,082,754	2,082,811
Total expenditures	2,105,000	57	2,082,754	2,082,811
Revenue over (under) expenditures	(2,105,000)	270	(2,073,949)	(2,073,679)
Other financing sources (uses)				
Transfers in:				
Water and Sewer Fund	450,000	350,000	100,000	450,000
Issuance of debt	1,750,000	-	1,750,000	1,750,000
Contingency	(95,000)	-	-	-
Total other financing sources	2,105,000	350,000	1,850,000	2,200,000
Revenue and other financing sources over (under) expenditures	\$ -	\$ 350,270	\$ (223,949)	\$ 126,321

Town of Morehead City, North Carolina

Water/Sewer Extensions Capital Project Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Contributed Capital - Radio Island	\$ 713,616	\$ 713,618	\$ -	\$ 713,618
Contributed Capital - SCYC	486,414	486,413	-	486,413
Contributed Capital - Mariners Point	827,795	807,795	-	807,795
Interest earned	70,906	69,989	2,913	72,902
Total revenue	2,098,731	2,077,815	2,913	2,080,728
Expenditures				
Water and sewer improvements	2,567,941	2,300,523	-	2,300,523
Total expenditures	2,567,941	2,300,523	-	2,300,523
Revenue over (under) expenditures	(469,210)	(222,708)	2,913	(219,795)
Other financing sources				
Transfers in:				
Water & Sewer Rebatable Capital Reserve	77,297	77,297	-	77,297
Radio Island Capital Project Fund	391,913	391,912	-	391,912
Total other financing sources	469,210	469,209	-	469,209
Revenue and other financing sources over expenditures	\$ -	\$ 246,501	\$ 2,913	\$ 249,414

Town of Morehead City, North Carolina

WWTP Improvement Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ -	\$ 4,577	\$ 10,133	\$ 14,710
Total revenue	-	4,577	10,133	14,710
Expenditures				
Water and sewer improvements	14,996,350	12,157,094	2,831,899	14,988,993
Total expenditures	14,996,350	12,157,094	2,831,899	14,988,993
Other financing sources				
Issuance of debt	15,000,000	10,828,540	3,041,515	13,870,055
Transfer from water/sewer rebatable fund	675,000	300,000	375,000	675,000
Contingency	(678,650)	-	-	-
Total other financing sources	14,996,350	11,128,540	3,416,515	14,545,055
Revenue and other financing sources over (under) expenditures	\$ -	\$ (1,023,977)	\$ 594,749	\$ (429,228)

Town of Morehead City, North Carolina

Lift Station Improvements Grant Project Fund
Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2009

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
Rural Center Grant	\$ 500,000	\$ -	\$ -	\$ -
Interest	-	-	19	19
Total revenue	500,000	-	19	19
Expenditures				
Lift station improvements	2,650,000	-	115,424	115,424
Total expenditures	2,650,000	-	115,424	115,424
Revenue under expenditures	(2,150,000)	-	(115,405)	(115,405)
Other financing sources				
Issuance of debt	1,050,000	-	-	-
Issuance of debt	1,050,000	-	-	-
Transfer from water and sewer fund	50,000	-	50,000	50,000
Total other financing sources	2,150,000	-	50,000	50,000
Revenue and other financing sources under expenditures	\$ -	\$ -	\$ (65,405)	\$ (65,405)

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OTHER FINANCIAL INFORMATION

Other financial information includes additional detailed analysis of particular aspects of the Town's financial position or results of operations.

- Schedule of Ad Valorem Taxes Receivable
 - Analysis of Current Tax Levy
-

Town of Morehead City, North Carolina

Schedule of Ad Valorem Taxes Receivable
June 30, 2009

Year Ended June 30	Uncollected Balance June 30, 2008	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2009
2008-2009	\$ -	\$ 5,128,300	\$ 5,081,168	\$ 47,132
2007-2008	45,403	(5,725)	30,871	8,807
2006-2007	14,024	(824)	3,648	9,552
2005-2006	10,781	(534)	2,097	8,150
2004-2005	2,358	-	313	2,045
2003-2004	1,240	-	428	812
2002-2003	3,267	-	3,131	136
2001-2002	157	-	1	156
2000-2001	296	(54)	-	242
1999-2000	876	-	2	874
1998-1999	103	-	103	-
	<u>\$ 78,505</u>	<u>\$ 5,121,163</u>	<u>\$ 5,121,762</u>	<u>77,906</u>

Less allowance for doubtful accounts

(40,726)

\$ 37,180

Reconciliation with revenues:

Taxes - Ad valorem, General Fund	\$ 5,102,815
Net collection adjustments	6,210
Amounts adjusted for tax discount	48,307
Less penalties and interest collected	<u>(35,570)</u>
Total collections and credits	<u>\$ 5,121,762</u>

Town of Morehead City, North Carolina

Analysis of Current Tax Levy
For the Year Ended June 30, 2009

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 2,308,663,589	0.22	\$ 5,079,060	\$ 4,932,377	\$ 146,683
Late listing penalties			6,152	6,152	-
Total	2,308,663,589		5,085,212	4,938,529	146,683
Discoveries:					
Current year taxes	41,800,972	0.22	91,962	91,962	-
Prior year taxes	3,816,847	0.38	14,504	14,504	-
Other adjustments	-		67	67	-
Total	45,617,819		106,533	106,533	-
Abatements					
Current year taxes	27,324,892	0.22	60,113	55,363	4,750
Other adjustments	-		3,332	3,332	-
Total	27,324,892		63,445	58,695	4,750
Total property valuation	<u>\$ 2,326,956,516</u>				
Net levy			5,128,300	4,986,367	141,933
Uncollected taxes at June 30, 2009			47,132	29,570	17,562
Current year's taxes collected			<u>\$ 5,081,168</u>	<u>\$ 4,956,797</u>	<u>\$ 124,371</u>
Current levy collection percentage			<u>99.08%</u>	<u>99.41%</u>	<u>87.63%</u>

STATISTICAL SECTION

(Unaudited)

This part of the Town of Morehead City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	99
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time	
Revenue Capacity	109
These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	
Debt Capacity	113
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	119
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	123
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

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Town of Morehead City, North Carolina

Net Assets By Component
Last Six Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	2004	2005	2006
Governmental activities:			
Invested in capital assets, net of related debt	\$ 5,343,984	\$ 6,969,774	\$ 7,368,834
Restricted	206,075	59,502	67,442
Unrestricted	3,941,879	4,388,933	5,429,501
Total governmental activities net assets	\$ 9,491,938	\$ 11,418,209	\$ 12,865,777
Business-type activities:			
Invested in capital assets, net of related debt	\$ 16,648,998	\$ 16,859,995	\$ 18,392,723
Unrestricted	5,112,878	5,904,172	5,909,873
Total business-type activities net assets	\$ 21,761,876	\$ 22,764,167	\$ 24,302,596
Primary government:			
Invested in capital assets, net of related debt	\$ 21,992,982	\$ 23,829,769	\$ 25,761,557
Restricted	206,075	59,502	67,442
Unrestricted	9,054,757	10,293,105	11,339,374
Total primary government net assets	\$ 31,253,814	\$ 34,182,376	\$ 37,168,373

GASB Statement No. 34 Implemented in Fiscal Year 2004

2007	2008	2009
\$ 11,334,954	\$ 14,487,313	\$ 20,038,930
17,982	44,853	49,870
5,995,760	6,110,999	5,319,695
<u>\$ 17,348,696</u>	<u>\$ 20,643,165</u>	<u>\$ 25,408,495</u>
\$ 21,246,564	\$ 22,276,242	\$ 23,703,651
6,272,564	6,784,898	6,663,538
<u>\$ 27,519,128</u>	<u>\$ 29,061,140</u>	<u>\$ 30,367,189</u>
\$ 32,581,518	\$ 36,763,555	\$ 43,742,581
17,982	44,853	49,870
12,268,324	12,895,897	11,983,233
<u>\$ 44,867,824</u>	<u>\$ 49,704,305</u>	<u>\$ 55,775,684</u>

Town of Morehead City, North Carolina

Changes In Net Assets

Last Six Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

	2004	2005	2006
Expenses:			
Governmental activities:			
General government	\$ 1,069,653	\$ 1,062,169	\$ 1,273,118
Public safety	4,180,633	4,481,960	4,683,022
Highways and streets	807,138	667,372	711,562
Economic and physical development	57,679	10,573	6,505
Cultural and recreation	713,564	702,866	719,270
Library	-	-	-
Interest on long-term debt	82,633	81,946	80,666
Total governmental activities expenses	6,911,300	7,006,886	7,474,143
Business-type activities:			
Water and sewer	2,985,469	2,720,098	3,342,171
Solid waste	754,519	677,425	848,223
Total business-type activities expenses	3,739,988	3,397,523	4,190,394
Total primary government expenses	10,651,288	10,404,409	11,664,537
Program revenue:			
Governmental activities:			
Charges for services			
General government	311,478	315,251	339,861
Public safety	632,978	750,517	681,881
Highways and streets	-	27,390	-
Cultural and recreation	97,952	97,370	91,559
Library	-	-	-
General government	1,462	-	-
Public safety	451,368	423,771	468,919
Highways and streets	226,546	476,981	247,417
Cultural and recreation	8,125	115,000	298
Library	-	-	-
Capital grants and contributions			
General government	-	-	-
Public safety	-	-	-
Highways and streets	-	107,360	21,484
Economic and physical development	57,650	10,557	-
Cultural and recreation	314,000	202,300	16,194
Library	-	-	-
Total governmental activities program revenue	2,101,559	2,526,497	1,867,613
Business-type activities:			
Charges for services:			
Water and sewer	2,836,560	3,101,515	3,406,037
Solid waste	681,135	702,697	729,613
Operating grants and contributions	91,867	-	125,663
Capital grants and contributions	2,120,618	461,574	1,243,927
Total business-type activities program revenue	5,730,180	4,265,786	5,505,240
Total primary government program revenue	7,831,739	6,792,283	7,372,853

(Continued)

2007	2008	2009
\$ 1,481,178	\$ 1,500,379	\$ 1,435,315
5,070,021	5,685,970	5,797,619
359,256	913,660	922,125
-	-	-
408,615	935,483	791,320
-	-	138,631
130,978	92,389	72,241
7,450,048	9,127,881	9,157,251

3,586,411	4,317,521	4,405,690
774,657	798,825	803,220
4,361,068	5,116,346	5,208,910
11,811,116	14,244,227	14,366,161

86,862	63,521	78,207
799,982	720,403	772,663
46,515	10,472	61,406
151,042	118,773	80,794
-	-	31,336
45,615	2,135	33,871
209,490	269,149	247,953
425,220	337,333	275,479
292,621	55,000	18,979
-	-	55,000
-	-	107,028
-	-	53,253
-	-	1,866,084
-	-	-
277,419	797,500	1,347,082
-	-	30,806
2,334,766	2,374,286	5,059,941

3,846,383	4,187,986	4,249,027
747,112	757,122	810,719
-	-	-
2,593,703	1,388,956	1,294,674
7,187,198	6,334,064	6,354,420
9,521,964	8,708,350	11,414,361

Town of Morehead City, North Carolina

Changes In Net Assets (Continued)
 Last Six Fiscal Years
(accrual basis of accounting)
 (Unaudited)

	2004	2005	2006
Net (expense) revenue:			
Governmental activities	(4,809,741)	(4,480,389)	(5,606,530)
Business-type activities	1,990,192	868,263	1,314,846
Total primary government net expense	(2,819,549)	(3,612,126)	(4,291,684)
General revenue and other changes in net assets:			
Governmental activities:			
Taxes:			
Property taxes, levied for general purpose	3,965,340	4,093,114	4,398,749
Local option sales tax	1,409,986	1,456,317	1,586,576
Other taxes	263,264	207,783	238,514
Unrestricted intergovernmental	469,781	544,198	561,558
Investment earnings, unrestricted	39,880	105,248	268,701
Miscellaneous income, unrestricted	-	-	-
Total governmental activities	6,148,251	6,406,660	7,054,098
Business-type activities:			
Investment earnings	90,648	134,028	223,583
Total business-type activities	90,648	134,028	223,583
Total primary government	6,238,899	6,540,688	7,277,681
Changes in net assets:			
Governmental activities	1,338,510	1,926,271	1,447,568
Business-type activities	2,080,840	1,002,291	1,538,429
Total primary government	\$ 3,419,350	\$ 2,928,562	\$ 2,985,997

Note: The Town began to report accrual information when it implemented GASB Statement 34 for the fiscal year ending June 30, 2004

2007	2008	2009
(5,115,282)	(6,753,595)	(4,097,310)
2,826,130	1,217,718	1,145,510
(2,289,152)	(5,535,877)	(2,951,800)

4,581,817	5,514,458	5,769,140
1,779,655	1,897,449	1,717,304
277,341	87,954	90,484
819,157	998,888	1,100,858
372,072	257,686	108,206
1,768,159	1,291,629	76,648
9,598,201	10,048,064	8,862,640

390,402	324,294	160,539
390,402	324,294	160,539
9,988,603	10,372,358	9,023,179

4,482,919	3,294,469	4,765,330
3,216,532	1,542,012	1,306,049
\$ 7,699,451	\$ 4,836,481	\$ 6,071,379

Town of Morehead City, North Carolina

Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	2000	2001	2002	2003
General Fund:				
Reserved	\$ 950,155	\$ 1,172,624	\$ 1,775,218	\$ 1,028,373
Unreserved:	2,608,027	2,567,956	1,645,814	2,535,868
Total General Fund	\$ 3,558,182	\$ 3,740,580	\$ 3,421,032	\$ 3,564,241
All Other Governmental Funds:				
Reserved	\$ 6,711	\$ 7,018	\$ 3,772	\$ 183,670
Unreserved, reported in:				
Special revenue funds	428,792	(540,827)	(533,386)	(455,771)
Capital projects funds	1,477,029	1,291,723	1,063,485	256,344
Total all other government funds	\$ 1,912,532	\$ 757,914	\$ 533,871	\$ (15,757)

Fiscal Year					
2004	2005	2006	2007	2008	2009
\$ 1,184,141	\$ 852,185	\$ 1,009,261	\$ 1,369,881	\$ 1,295,931	\$ 1,058,644
2,711,541	3,714,260	4,189,048	3,976,579	3,036,393	3,297,549
\$ 3,895,682	\$ 4,566,445	\$ 5,198,309	\$ 5,346,460	\$ 4,332,324	\$ 4,356,193
\$ 343,467	\$ 635,137	\$ 855,428	\$ 536,360	\$ 424,139	\$ 338,140
268,446	(58,476)	529,141	49,027	433,635	849,191
(135,250)	(348,065)	413,970	633,262	1,255,086	225,666
\$ 476,663	\$ 228,596	\$ 1,798,539	\$ 1,218,649	\$ 2,112,860	\$ 1,412,997

Town of Morehead City, North Carolina

Changes In Fund Balances, Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Unaudited)

	2000	2001	2002	2003
Revenue:				
Taxes	\$ 2,653,480	\$ 2,737,129	\$ 3,251,976	\$ 3,411,953
Other taxes and licenses	1,234,247	1,148,324	1,192,864	1,405,621
Intergovernmental	1,937,340	1,819,108	2,335,305	1,558,080
Permits and fees	268,624	369,100	336,057	341,470
Sales and services	143,699	128,338	164,823	370,278
Investment earnings	243,601	311,858	97,520	57,815
Miscellaneous	91,531	138,591	505,563	196,810
Total revenue	6,572,522	6,652,448	7,884,108	7,342,027
Expenditures:				
General government	802,447	780,042	1,061,676	1,024,755
Public safety	3,165,197	3,357,682	3,659,836	3,794,752
Highway and streets	580,194	658,065	765,100	881,417
Culture and recreation	339,377	362,346	433,851	404,970
Economic and physical development	-	-	-	31,781
Capital outlay	1,629,118	2,091,690	2,204,712	1,299,427
Debt service:				
Interest	43,711	97,374	104,177	102,476
Principal	154,309	277,469	198,347	208,868
Total expenditures	6,714,353	7,624,668	8,427,699	7,748,446
Excess of revenue (under) expenditures	(141,831)	(972,220)	(543,591)	(406,419)
Other financing sources (uses):				
Transfers in	1,510,647	2,014,861	1,427,354	1,014,112
Transfers out	(1,510,647)	(2,014,861)	(1,427,354)	(1,014,112)
Debt issued	1,700,000	-	-	-
Total other financing sources	1,700,000	-	-	-
Net changes in fund balance	\$ 1,558,169	\$ (972,220)	\$ (543,591)	\$ (406,419)
Debt service as a percentage of noncapital expenditures	3.89%	6.77%	4.86%	4.83%

Fiscal Year					
2004	2005	2006	2007	2008	2009
\$ 3,966,227	\$ 4,110,172	\$ 4,395,523	\$ 4,583,518	\$ 5,510,995	\$ 5,766,103
1,673,250	1,664,100	1,825,090	277,341	87,954	285,374
1,641,693	1,885,328	1,340,960	3,498,663	4,115,879	3,674,288
455,714	498,911	419,236	497,046	296,788	250,492
430,637	455,927	527,171	538,688	566,135	680,616
39,880	105,248	268,701	372,072	257,686	108,206
248,916	286,031	177,799	1,872,278	380,096	193,977
8,456,317	9,005,717	8,954,480	11,639,606	11,215,533	10,959,056
1,104,425	1,059,147	1,195,511	1,364,735	1,493,602	1,302,666
4,020,739	4,227,291	4,370,515	4,709,486	5,368,924	5,518,315
789,368	686,881	707,944	775,807	814,348	771,565
1,445,323	524,676	568,144	649,516	813,027	757,067
57,679	10,573	(52)	-	-	-
309,916	1,698,594	1,064,919	3,898,300	2,617,912	2,669,623
89,151	86,257	76,668	123,669	97,371	79,404
200,855	289,602	388,603	549,832	460,274	536,410
8,017,456	8,583,021	8,372,252	12,071,345	11,665,458	11,635,050
438,861	422,696	582,228	(431,739)	(449,925)	(675,994)
1,443,388	1,270,354	1,117,104	3,068,632	2,270,721	1,831,074
(1,443,388)	(1,270,354)	(1,117,104)	(3,068,632)	(2,270,721)	(1,831,074)
385,000	-	1,619,579	-	330,000	-
385,000	-	1,619,579	-	330,000	-
\$ 823,861	\$ 422,696	\$ 2,201,807	\$ (431,739)	\$ (119,925)	\$ (675,994)
3.76%	5.46%	6.37%	8.24%	6.16%	5.59%

Town of Morehead City, North Carolina

Assessed Value and Estimated Actual Value of Taxable Property Last Ten Fiscal Years (Unaudited)

Fiscal Year Ending June 30	Real Property*	Personal Property*#	Public Service Companies*	Total Assessed Value*	Total Direct Tax Rate	Estimated Actual Taxable Value*	Taxable Assessed Value as a Percentage of Actual Taxable Value of Real Property
2000	538,727,824	113,296,753	17,624,673	669,649,250	0.0040	755,823,205	86.21%
2001	556,039,528	114,501,247	17,529,088	688,069,863	0.0040	857,947,282	77.15%
2002	727,274,541	110,876,927	21,097,620	859,249,088	0.0038	859,249,088	100.00%
2003	760,124,717	118,676,409	20,803,084	899,604,210	0.0038	947,778,852	94.04%
2004	792,471,863	128,599,744	21,544,709	942,616,316	0.0038	1,007,334,137	92.45%
2005	825,520,131	129,298,376	22,437,019	977,255,526	0.0038	1,104,771,797	86.62%
2006	891,984,091	152,464,411	19,185,995	1,063,634,497	0.0038	1,318,306,906	77.79%
2007	922,463,052	155,794,591	20,134,240	1,098,391,883	0.0038	1,715,353,314	60.44%
2008	1,989,594,948	100,680,174	29,112,844	2,119,387,966	0.0022	2,119,387,966	100.00%
2009	2,120,625,716	175,944,310	30,386,490	2,326,956,516	0.0022	Not Available	Not Available

Source: Carteret County Tax Scrolls

Notes:

- 1 The North Carolina General Statutes require a revaluation of real property at least every eight years. Real property is valued at 100% of estimated value as of the date of the latest revaluation. The last revaluation was effective for the fiscal year ending June 30, 2008.
- 2 Personal property is valued at 100% of estimated value.
- 3 Public service property is generally valued at 100% of estimated value. It may be valued at less than 100% in years in which the County's sales to assessment ratio on real property is less than 80%.
- 4 The Town bills and collects property taxes for real, public service, nonregistered motor vehicles, and personal property. Carteret County bills and collects property taxes for registered motor vehicles on behalf of the Town. The values reported above include property taxes billed and collected by the Town and County.

* Excludes tax exempt property

Includes registered motor vehicles billed and collected by Carteret County

Town of Morehead City, North Carolina

Direct and Overlapping Property Tax Rates Last Ten Fiscal Years

Fiscal Year Ending <u>June 30</u>	Direct Rate Morehead <u>City</u>	Overlapping Rate Carteret <u>County</u>
2000	0.400	0.500
2001	0.400	0.510
2002	0.380	0.400
2003	0.380	0.420
2004	0.380	0.420
2005	0.380	0.420
2006	0.380	0.420
2007	0.380	0.440
2008	0.220	0.230
2009	0.220	0.230

Notes:

- 1 Source of County tax rates - Carteret County Tax Office.
- 2 Carteret County tax rates exclude fire/EMS district tax rates. These rates vary between districts and are nominal in amount

Town of Morehead City, North Carolina

**Principal Property Tax Owners
Current Year and Nine Years Ago
(Unaudited)**

Customer	Fiscal Year Ending June 30, 2009			Fiscal Year Ending June 30, 2000		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
Duke Construction Limited Ptsp	\$ 19,586,675	1	0.92			
USPG Portfolio Two LLC	19,438,441	2	0.92			
ITAC 192 LLC	19,131,789	3	0.90			
Wal Mart Real Est Business Trust	15,208,791	4	0.72			
Morehead Plaza LLC ETAL	14,257,867	5	0.67			
Southstar Holding MHC LLC ETAL	13,657,722	6	0.64	\$ 7,998,769	3	
Old Towne Yacht Club Inc	13,078,510	7	0.62			
Progress Energy Carolinas	12,832,638	8	0.61			
Carolina Telephone	10,195,858	9	0.48	8,867,313	2	1.38
Radio Island Marina Club Inc	9,383,699	10	0.44			
Glimcher Properties LTD				11,955,932	1	1.86
Carolina Power & Light Co				7,723,274	4	1.20
Bally Refrigerated Boxes Inc				6,824,636	5	1.06
Alber Investments Inc				6,495,775	6	1.01
Harborview Enterprises Inc				6,126,906	7	0.95
Maritime Hotel LTD Partnership				4,276,482	8	0.67
Parkway Shopping Center Inc				4,206,124	9	0.65
MCC ABBITT LLC				3,579,363	10	0.56
	<u>\$ 146,771,990</u>		<u>6.93</u>	<u>\$ 68,054,574</u>		<u>9.35</u>

NOTES:

- 1 Values reported above include amounts for property billed and collected by the Town. It excludes values for registered motor vehicles billed and collected by Carteret County on behalf of the Town.

Town of Morehead City, North Carolina

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2000	\$ 2,451,430	\$ 2,435,527	99.35	\$ 20,709	\$ 2,456,236	100.20
2001	2,536,006	2,522,603	99.47	13,138	2,535,741	99.99
2002	3,070,037	3,048,211	99.29	21,485	3,069,696	99.99
2003	3,224,010	3,202,279	99.33	21,272	3,223,551	99.99
2004	3,377,760	3,358,402	99.43	17,976	3,376,378	99.96
2005	3,508,734	3,496,785	99.66	9,894	3,506,679	99.94
2006	3,814,505	3,802,159	99.68	11,099	3,813,258	99.97
2007	3,925,936	3,914,535	99.71	9,224	3,923,759	99.94
2008	4,671,447	4,647,776	99.49	15,627	4,663,403	99.83
2009	4,986,367	4,956,797	99.41	-	4,956,797	99.41

Source: Town of Morehead City tax reports.

Note: Excludes motor vehicle taxes

Town of Morehead City, North Carolina

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Installment Contracts	Notes Payable	Capital Leases
2000	\$ 47,352	\$ 2,407,921	\$ -	\$ -
2001	33,064	2,144,739	-	-
2002	17,344	1,962,112	-	-
2003	-	1,770,588	-	-
2004	-	1,954,733	-	-
2005	-	1,665,131	-	-
2006	-	2,488,222	377,000	30,885
2007	-	1,954,749	370,412	21,245
2008	-	1,841,615	363,553	10,965
2009	-	1,323,313	356,411	-

Note: Details regarding the Town's outstanding debt may be found in the notes to the financial statements

N/A Not Available

Business-Type Activities			Total Primary Government	Population Estimate	Total Debt Per Capita	Total debt as Percentage of Personal Income
General Obligation Bonds	Installment Contracts	Notes Payable				
\$ 544,548	\$ 4,533,376	\$ 1,381,823	\$ 8,915,020	7,603	\$ 1,173	0.58%
380,236	4,298,253	1,564,635	8,420,927	7,714	1,092	0.52%
199,456	5,729,542	1,564,635	9,473,089	7,692	1,232	0.59%
-	5,365,324	1,932,194	9,068,106	7,731	1,173	0.54%
	4,983,032	2,865,693	9,803,458	7,825	1,253	0.54%
-	4,569,789	2,861,088	9,096,008	8,092	1,124	0.47%
-	3,294,514	2,726,088	8,916,709	8,209	1,086	0.44%
-	2,951,334	5,283,522	10,581,262	8,390	1,261	0.49%
-	2,593,358	13,811,891	18,621,382	8,691	2,143	N/A
-	3,858,590	16,667,915	22,206,229	8,763	2,534	N/A

Town of Morehead City, North Carolina

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	General Bonded Debt Outstanding	Estimated Actual Taxable Value	Percentage of Actual Taxable Value of Property	Population Estimate	Total debt Per Capita
2000	\$ 591,900	\$ 755,823,205	0.08%	7,603	\$ 78
2001	413,300	857,947,282	0.05%	7,714	54
2002	216,800	859,249,088	0.03%	7,692	28
2003	-	947,778,852	0.00%	7,731	-
2004	-	1,007,334,137	0.00%	7,825	-
2005	-	1,104,771,797	0.00%	8,092	-
2006	-	1,318,306,906	0.00%	8,209	-
2007	-	1,715,353,314	0.00%	8,390	-
2008	-	2,119,387,966	0.00%	8,691	-
2009	-	Not Available	Not Available	8,763	-

Note: Details regarding the Town's outstanding debt may be found in the notes to the financial statements.

Town of Morehead City, North Carolina

Direct and Overlapping Governmental Activities Debt
For the Year Ended June 30, 2009
(Unaudited)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Carteret County Debt	\$ 55,920,000	11.14%	6,229,488
Subtotal, overlapping debt	<u>\$ 55,920,000</u>		<u>\$ 6,229,488</u>
Town direct debt	-	100.00%	-
Total direct and overlapping debt			<u><u>\$ 6,229,488</u></u>

Notes:

- 1 Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the Town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Morehead City. This process recognizes that, when considering the Town's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident-and therefore responsible for repaying the debt-of each overlapping government.
- 2 The source of County debt is the Carteret County Finance Office.

Town of Morehead City, North Carolina

Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)
(Unaudited)

	2000	2001	2002	2003
Debt limit	\$ 53,571,940	\$ 55,045,589	\$ 68,933,074	\$ 71,968,337
Total net debt applicable to limit	47,352	33,064	17,344	-
Legal debt margin	<u>\$ 53,524,588</u>	<u>\$ 55,012,525</u>	<u>\$ 68,915,730</u>	<u>\$ 71,968,337</u>
Total net debt applicable to the limit as a percentage of debt limit	0.09%	0.06%	0.03%	0.00%

Legal Debt Margin Calculation for Fiscal Year 2009

Total assessed valuation	\$ 2,326,956,516
Debt limit (8% of assessed value)	<u>186,156,521</u>
Legal debt margin	<u>\$ 186,156,521</u>

2004	2005	2006	2007	2008	2009
\$ 75,409,305	\$ 76,180,442	\$ 85,090,760	\$ 87,871,351	\$ 176,350,885	\$ 186,156,521
-	-	-	-	-	-
\$ 75,409,305	\$ 76,180,442	\$ 85,090,760	\$ 87,871,351	\$ 176,350,885	\$ 186,156,521
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Town of Morehead City, North Carolina

Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ending June 30,	Population (1)	Median Age (1)	Carteret County Public School Enrollment (2)	Unemployment Rate (3)	Per Capita Personal Income (4)	Personal Income (4)
2000	7,603	42.47	8,326	4.3%	\$ 25,756	\$ 1,529,989
2001	7,714	43.01	8,187	5.2%	26,933	1,611,284
2002	7,692	43.53	8,100	6.3%	26,874	1,618,781
2003	7,731	44.08	8,126	6.2%	27,642	1,685,144
2004	7,825	44.64	8,181	5.4%	29,177	1,803,484
2005	8,092	45.19	8,237	5.0%	30,961	1,945,862
2006	8,209	N/A	8,056	4.6%	32,086	2,029,585
2007	8,390	N/A	8,185	4.5%	34,241	2,162,444
2008	8,691	N/A	8,371	4.3%	N/A	N/A
2009	8,763	N/A	8,295	7.4%	N/A	N/A

Notes:

- 1 Population and median age provided by NC Office of Planning-State Demographer
- 2 Public school enrollment provided by the Carteret County Board of Education
- 3 Unemployment provided by the NC Employment Security Commission
- 4 Per capita personal income and personal income provided by the U S Bureau of Economic Analysis. Information is available at the county level and presented on that basis. (In thousands)

N/A - information not yet available for the year listed.

Town of Morehead City, North Carolina

**Principal Employers
Current Year
(Unaudited)**

Employer	2007		Percentage of Total City Employment
	Employees	Rank	
Carteret General Hospital	1,095	1	N/A
Wal-mart Associates, Inc.	544	2	N/A
Carteret County Board of Education	377	3	N/A
Carteret Community College	348	4	N/A
Food Lion, Inc.	232	5	N/A
Lowe's Food	207	6	N/A
Bally Refrigerated Boxes, Inc.	171	7	N/A
Lowe's Home Improvement	161	8	N/A
Town of Morehead City	142	9	N/A
Creative Outlet	107	10	N/A

Notes:

- 1 2007 was most recent year for which information is available and includes full-time and part-time workers. Information not available for prior years.
- 2 Source of information is Employment Security Commission of North Carolina.
- 3 N/A = Information not available.

Town of Morehead City, North Carolina

Full-Time Equivalent Town Government Employees By Functions/Programs
Last Ten Fiscal Years
(Unaudited)

FUNCTION	Full-Time Equivalent Employees as of June 30									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
General Government:										
Administration	4	4	4	4	4	4	4	4	4	4
Finance	6	6	6	6	6	6	6	6	6	5
Building & Grounds	7	8	6	6	6	5	5	5	4	4
Garage	1	1	1	1	1	1	1	1	1	1
Public Safety:										
Police	51	51	48	48	47	48	46	46	46	45
Fire/EMS	33	33	27	21	21	20	20	20	20	20
Planning & Inspections	7	7	7	7	6	5	5	5	5	5
Transportation:										
Streets	10	10	9	9	9	9	9	9	8	7
Recreation & Culture:										
Recreation	8	8	7	7	7	7	7	7	7	7
Parks	1	0	0	0	0	0	0	0	0	0
Library	4	4	4	2	2	2	0	0	0	0
Water & Sewer:										
Billing & collections	4	4	4	3	3	3	3	3	3	4
Water Distbr. & sewer collect.	14	14	14	13	13	13	13	13	13	12
Wastewater treatment	6	6	5	5	5	5	5	5	5	5
Solid Waste:										
Operations	1	1	1	1	1	1	1	1	1	1
TOTAL	157	157	143	133	131	129	125	125	123	120

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Town of Morehead City, North Carolina

Operating Indicators By Function/Program

Last Ten Fiscal Years

(Unaudited)

Function/Program	2000	2001	2002	2003
Function/Program				
Public Safety				
Police calls dispatched ##	59,885	74,988	69,248	65,118
Number of building permits issued ##	1,227	865	1,181	825
Construction value of building permits issued ##	32,204,823	30,785,749	44,847,505	44,094,957
Fire/EMS area served in square miles ##	12.07	12.07	12.07	12.25
Fire calls answered ##	627	562	567	625
EMS calls answered ##	1,307	1,693	1,721	1,851
Highways and Streets				
Miles of streets maintained **	39.95	41.08	41.08	41.83
Water/Sewer				
Number of customers served **	4,261	4,769	4,803	4,493
Daily avg. gallons water consumption ##	1,218,000	1,196,000	1,072,000	1,151,000
Daily avg. gallons waste water treated ##	1,556,000	1,504,000	1,114,000	1,117,000
Sanitation				
Solid waste collected annually (tons) **	3,087	2,949	3,126	3,049
Recyclables collected annually (tons) **	320	365	362	314

Notes:

- 1 Items noted with ## are presented on a calendar year basis.
- 2 Items noted with ** are presented on a fiscal year basis.
- 3 N/A = information not available

Calendar Year					
2004	2005	2006	2007	2008	2009
60,180	92,714	97,205	98,801	96,127	98,291
852	1,030	1,137	1,000	953	890
60,409,802	63,685,536	85,272,028	94,425,714	48,035,938	27,011,019
12.25	12.47	12.51	14.17	N/A	14.20
786	855	1,156	814	772	807
1,835	1,979	2,378	1,433	1,619	1,665
43.28	43.30	44.11	44.11	47.15	49.38
4,674	4,588	5,052	5,218	5,299	5,322
1,257,900	1,301,000	1,284,000	1,289,000	1,254,000	1,212,000
1,827,000	1,544,903	1,358,846	1,416,000	1,321,000	1,156,000
3,395	3,565	3,611	3,733	3,392	3,293
301	325	366	321	369	434

Town of Morehead City, North Carolina

Capital Asset Statistics By Function/Program
Last Ten Fiscal Years
(Unaudited)

	2000	2001	2002	2003
Function/Program				
General Government				
Number of cemeteries	3	3	3	3
Public Safety				
Number of police stations/substations	1	3	3	4
Number of patrol units	41	40	45	45
Number of Fire/EMS stations	2	2	2	2
Number of engines	5	5	5	5
Number of ambulances	2	2	2	2
Highways and Streets				
Miles of streets	39.95	41.08	41.08	41.83
Culture and Recreation				
Number of parks	7	7	8	8
Number of public water accesses	N/A	N/A	N/A	5
Park acreage	14.5	14.5	70.5	70.5
Tennis and multipurpose courts	6	6	6	6
Playgrounds	4	4	4	4
Ballfields	2	2	2	2
Number of libraries	0	0	0	0
Water/Sewer				
Miles of water mains	61.87	67.54	67.54	68.00
Miles of sanitary sewers	62.46	71.00	71.00	72.00
Number of treatment plants	1	1	1	1
Sanitation				
Number of yard waste trucks	1	1	1	1

Notes:

1) Information not available for items noted N/A.

Calendar Year					
2004	2005	2006	2007	2008	2009
3	3	3	3	3	3
4	4	4	3	3	3
44	46	44	44	44	44
2	2	2	3	4	4
5	3	4	5	6	5
2	2	3	3	3	3
43.28	43.30	44.11	44.11	47.15	49.38
9	9	9	10	13	13
7	7	10	9	19	19
87.0	87.0	87	87	74	74
8	8	8	8	7	7
4	4	4	4	4	4
9	9	9	9	8	10
1	1	1	1	1	1
70.00	70.00	71.00	76.00	78.82	82.04
73.10	73.10	73.80	74.00	76.95	79.14
1	2	2	2	2	2
1	2	2	2	2	2

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COMPLIANCE SECTION

The Compliance Section contains various schedules and Auditor opinions reflecting State and Local matching participation in various projects and programs of the Town. The Single Audit Act Amendment of 1996 established audit requirements for State and Local governments that receive Federal assistance. The audit requirements were established to insure that audits are conducted on an organization-wide basis, rather than on a grant-by-grant basis.

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise Town of Morehead City's basic financial statements, and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Morehead City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Morehead City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Morehead City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town of Morehead City in a separate letter dated November 13, 2009.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, federal and State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 13, 2009

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report on Compliance
With Requirements Applicable to Each Major Federal Program
and on Internal Control Over Compliance in Accordance With
OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City, North Carolina

Compliance

We have audited the compliance of Town of Morehead City, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2009. Town of Morehead City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of Morehead City's management. Our responsibility is to express an opinion on Town of Morehead City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Town of Morehead City's compliance with those requirements.

In our opinion, Town of Morehead City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Town of Morehead City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

However, we noted a certain matter which we reported to management of Town of Morehead City in a separate letter dated November 13, 2009.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, federal awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 13, 2009

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Compliance With Requirements Applicable
to Each Major State Program and on Internal Control
Over Compliance in Accordance With Applicable Sections
of OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City, North Carolina

Compliance

We have audited the compliance of Town of Morehead City, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2009. Town of Morehead City's major State program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program is the responsibility of Town of Morehead City's management. Our responsibility is to express an opinion on Town of Morehead City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Town of Morehead City's compliance with those requirements.

In our opinion, Town of Morehead City complied, in all material respects, with the requirements referred to above that are applicable to its major State program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Town of Morehead City's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 13, 2009

Town of Morehead City, North Carolina

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section 1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted

_____ yes X no

Federal Awards

Internal control over major Federal program:

- Material weakness(es) identified? _____ Yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X none reported

Type of auditor's report issued on compliance for major Federal program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes X no

Identification of major Federal programs:

<u>CFDA #</u>	<u>Program Name</u>
66.458	Capitalization Grants for Clean Water State Revolving Loan Fund
66.468	Capitalization Grants for Drinking Water State Revolving Loan Fund

(Continued)

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2009**

Dollar threshold used to distinguish between Type A and
Type B Programs \$300,000

Auditee qualified as low-risk auditee? Yes

State Awards

The only major State program for the Town is the Capitalization Grant for Clean Water State Revolving Fund which is a State Match on a federal program. Therefore, this program has been included in the list of major federal programs above.

Section 2. Financial Statement Findings

None

Section 3. Federal Award Findings and Questioned Costs

None

Section 4. State Award Findings and Questioned Costs

None.

Town of Morehead City, North Carolina

Corrective Action Plan
For the Year Ended June 30, 2009

Section 2. Financial Statement Findings

No corrective action plan is required in the current year.

Section 3. Federal Award Findings and Questioned Costs

No corrective action plan is required in the current year.

Section 4. State Award Findings and Questioned Costs

No corrective action plan is required in the current year.

Town of Morehead City, North Carolina

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2009

There are no prior audit findings (as that term is defined in OMB Circular A-133) that require reporting in this schedule.

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2009

Page 1 of 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
Federal Awards:					
US Department of Housing and Urban Development Pass through East Carolina Regional Housing Authority Public Housing Drug Elimination Program	14.854		\$ 41,126	\$ -	\$ -
US Department of Justice Direct Programs: Pass through NC Department of Crime Control and Public Safety Public Safety Partnership and Policing	16.710	N/A	23,780	-	-
Pass through Carteret County Board of Education: School Resource Officer	16.594	N/A	111,371	-	-
Total US Department of Justice			135,151	-	-
US Department of Agriculture Direct Programs: Jaycee Park Restroom Grant	10.769	N/A	4,894	-	7,189
Total US Department of Homeland Security			4,894	-	7,189
US Department of Transportation Pass-through NC Department of Transportation Enhancement Agreement Project	20.205	N/A	2,549	637	-
Governors Highway Safety Program	20.601	N/A	15,713	-	-
Total US Department of Transportation			18,262	637	-
Environmental Protection Agency Pass through: NC Department of Environment and Natural Resources - Division of Water Quality Clean Water State Revolving Loan Fund	66.458		M 2,184,623	546,156	101,120
ARRA Clean Water State Revolving Loan Fund	66.458		M 114,907	-	517
ARRA Drinking State Revolving Loan Fund	66.468		M 315,682	-	286
Total Environmental Protection Agency			2,615,212	546,156	101,923

(Continued)

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards (Continued)

For the Fiscal Year Ended June 30, 2009

Page 2 of 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
NC Department of Environment and Natural Resources					
Mosquito Control		N/A	-	1,619	7,518
Division of Water Quality					
Harbor Realignment Study		N/A	-	31,127	31,145
Clean Water Management Trust Fund Reuse Grant			-	- 81,900	-
Total NC Department of Environment and Natural Resources			-	114,646	38,663
NC Department of Transportation					
Nonstate System Street Aid Allocation		N/A	-	273,861	-
Small Construction Agreement		N/A	-	9,332	-
Total NC Department of Transportaion			-	283,193	-
NC Department of Health and Human Services					
Division of Youth Services					
Pass through Carteret County: Teen Court Grant		N/A	-	37,208	-
Total federal expenditures			<u>\$ 2,814,645</u>		
Total state expenditures				<u>\$ 981,840</u>	
Total local expenditures					<u>\$ 147,775</u>

See Notes to the Schedule of Expenditures of Federal and State Awards.

Town of Morehead City, North Carolina

**Notes to the Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2009**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Town of Morehead City, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Loans Outstanding

The Town of Morehead City has outstanding loan balances from federal and State funding sources that are not required to be presented within the schedule of expenditures of federal and State Awards because there are no continuing requirements beyond the repayment of the loan balances in accordance with loan agreement provisions. The outstanding balances of the Safe Drinking Water Revolving Loan Fund, the Drinking Water Bond, the Clean Water Revolving Loan Fund, and the Clean Water State Revolving Loan Fund at June 30, 2009 were \$1,190,000, \$807,859, \$800,000 and \$13,870,056, respectively.

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